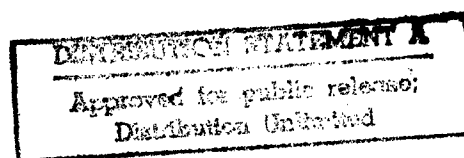


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GENERAL

Convergence Theory, East-West Quest for Common Ground

40050414 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 4, 16 Feb 89 pp 4-5

[Article by Yang Xiao 2799 0876: "Theory of Convergence and the Quest for Common Ground"]

[Text] At a news conference, [Soviet economist] Aganbegyan mentioned an event he himself had witnessed: at a gathering of renowned personnel from different circles during Gorbachev's visit to Washington in 1987, Karl Boris asked Gorbachev bluntly, why are you afraid of the term "convergence"? Gorbachev's answer, "I am not afraid at all," is indeed food for thought.

Boris' concern about "convergence" should surprise no one. This renowned economist is also a well-known defender of the theory of convergence. The so-called convergence theory advances the viewpoint that socialism and capitalism will draw closer to each other, that they have the tendency to converge. This theory has long been denounced by Soviet theorists as "theory of bourgeois apologists" and " 'scientific' basis of the global strategy of imperialism to destroy socialism from the inside." Upon becoming chief of the Central Committee's Ideology Committee, Medvedev, committee member of the CPSU Central Committee's Politburo, in October 1988 gave his first speech, in which he acknowledged that socialism and capitalism unavoidably will "intersect" as they develop and the two systems inevitably will "influence each other in the domain of the same human civilization," but emphatically denied that "the two systems will converge and merge." The theory of convergence is like fierce floods and savage beasts; the Soviets are not without reason for being afraid of it.

In June of 1988, I had the occasion to chat with two assistant editors for the Soviet journal INTERNATIONAL LIFE. We talked about Perestroika and how the conflict between the two systems [of capitalism and socialism] will eventually be resolved. My counterpart said it should be resolved by accommodating the other side, not by destroying the other side. Socialism and capitalism do have things in common. For example, Americans too have a strong sense of collectivism, unlike what we used to think, that collectivism is unique to socialism.

"Isn't this the theory of convergence? You used to have harsh words for it."

"True. Convergence has become a derogatory term here. We have to find a better word."

In other words, they are still worried about the term.

But Gorbachev said that he is not afraid at all. Why? Aganbegyan said, there are indeed many similarities between the two systems. We are all a part of the unified world economy, and stronger ties among nations naturally give rise to many new common grounds. We share many things, but there are great differences too, and therefore we need not be afraid of this term but should analyze it objectively and ask, what do we share? What are our differences?

"Then what about you? Are you for or against 'convergence'?" I pressed on.

"I am for it." He was forthright with his reply, but also added, "depends on what you mean."

Gorbachev has advanced a new outlook of the world: the contemporary world has contradictions but also interrelated and interdependent aspects, and in essence, the world is a whole unit. From here, Soviet scholars go on to suggest that the two systems will have strong effects on each other and draw closer to each other. Their interpretation of the phenomenon of convergence so far is limited to this elementary argument. As for the differences and similarities between the two systems and whether they will merge eventually into one system, it appears that we just have to wait for further analysis and proof.

But the important thing is that the issue of similarities and differences has turned a new direction. A Soviet scholar by the name of Yaltsin said, "in the old days, we rejected the theory of convergence; we regarded it as the usual ideological sabotage. But this theory no doubt shows that many liberal bourgeois theorists go along with our aspirations, and therefore we should consider soberly, is there a grain of truth in this concept?" Another scholar simply acknowledged, "we have done many stupid things in criticizing the theory of convergence. We should have tried to find out in which direction the similarities between these two systems are heading."

A slightly different concept which shares the common lot with "convergence" and which experienced similar complications is the quest for common ground.

There is a story in China's diplomatic history of the 1950's which many older people probably still remember: on the first couple of days of the Bandung Conference, after delegates from most countries had spoken, anti-colonialism and the pursuit of friendship and cooperation being the theme of the conference, all of a sudden, someone stood up and launched a verbal assault on communism, even wondering aloud whether China was taking "subversive" action against her neighboring countries. The atmosphere grew tense, and many were breathless with anxiety, fearing that when the Chinese delegation exercised its right to respond, it would lead to heated disputes and the conference would break up in discord. Zhou Enlai, head of the Chinese delegation,

delivered a frank and conciliatory speech: the Chinese delegates are here to show solidarity, not to pick fights; we are here to seek common ground, not to stake out our differences; we at this conference should seek common ground but reserve our differences. Zhou Enlai's speech won resounding applause from the audience, and the conference was a dramatic success. The guiding principle of seeking common ground while reserving differences in Chinese diplomacy gained wide acceptance in international societies, and its prestige was greatly enhanced.

It is inevitable that there will be differences among nations. Conflicts of interest and opposition in stands are also inevitable. But smart diplomacy can always find the spot where interests meet and viewpoints converge. Except if a nation intentionally wants to flaunt its isolation, everybody wants more friends and fewer enemies. Not only must the Third World countries seek greater identity and minimize the differences among themselves, but they must also seek common grounds, to different degrees and at different levels, with other types of countries. If politics is also called the art of accomplishing the possible, then diplomacy can be called the art of seeking common ground. As each nation tries to protect its own interests and viewpoints, there will be battles of words and anger and frustration. But without the will and the ability to find the convergent point amid sharp confrontations, without trying to seek common ground while only asserting differences, we will never break any deadlocks or salvage a hopeless situation, and in the end this will only be to the country's own disadvantage.

Unfortunately, it is never smooth sailing when implementing the guiding principle of seeking common ground while reserving differences. At times, the emphasis may clearly shift to accentuate the differences. Not only those countries which are known to be confrontational but even many of the Third World countries which are better adapted to the principle of seeking common ground and reserving differences will be looked upon as dissidents. Everybody will demand that the line be drawn; discussing the issues which concern all mankind will become a sin; "peace" will be criticized, and people will take pride in "struggle." We all know the consequence: at these times, everybody becomes a stranger in this world.

Seeking common ground and reserving differences is a guiding principle for handling national relationships; convergence refers to the same objective process of development of different social systems. The two are not the same, but they share the same premise of acknowledging the existence of common ground: there is common ground to be sought, and there is common ground upon which to converge. One concept seeks the common point shared by different countries in order to achieve solidarity; the other points out the common denomination (or possible common demonination) of different systems so that they can influence or learn from each other. The emphasis is on the similarities and not the

differences. If convergence indeed is an objective developmental process, then there will be more and more opportunities for finding common ground. What Shevardnadze referred to at the European Security Council's extended session as the "Vienna Accord" covers a lot of ground. For China, the days when our guiding principle—of seeking common ground while reserving differences—was ridiculed are history. It is shining through again. This principle fits in well with our time and is compatible with the demands of reform and opening up. It no doubt will become richer and more profound.

But, coming back to our earlier point, perhaps we are lucky that things were not quite as open before and nobody knew that Karl Boris and others would come up with the theory of convergence; otherwise, today, like the Soviet scholars, we too would have some rethinking to do.

Forum Calls For More Scientific, Democratic Foreign Policymaking 40050552

[Editorial Report] Shanghai SHIJIE JINGJI DAOBAO in Chinese of 10 Apr 89 carried on p 3 a report on a forum on international relations in the Pacific Region. The report was filed by Chang Lan [1603 5663] and Shang Zhi [1424 0037].

The report says that in early April SHIJIE JINGJI DAOBAO, the Social and Cultural Development Institute, SHIJIE ZHISHI [WORLD AFFAIRS] magazine, the Youths' International Political Science Society, and other units jointly convened a "Forum on Pacific Politics, Economics, Law, and Culture" attended by more than 30 young and middle-aged international relations theorists. The participants examined the new policy adjustments of the United States, the Soviet Union, Western Europe, Japan, and the Asian NICs toward the Asia-Pacific Region; the theories and predictions of Pacific Basin experts in the various countries; opportunities and options facing the PRC government; the future shape and form of the Pacific Century; and China's role.

The reporters noted that the many sensitive problems in bilateral relations were a major concern among the participants. Of particular note, the participants felt that the recent establishment of economic relations between Hungary and South Korea has a bearing on future PRC-Taiwan relations and reflects the trend that economic factors are becoming paramount in international relations. They noted that Taiwan itself has made economic factors a main force behind its "flexible diplomacy."

The participants also discussed China's challenges and opportunities in the course of its development. They pointed out not only the challenges in economics, science, and technology, but also the serious challenge to China's national defense posed by neighboring countries. Because China's comprehensive national strength is declining relative to that of its neighbors, threats to

China's land, air, and sea territories exist and the objectives for and defense of these territories have become new challenges for China's foreign policy.

The consensus of the experts and scholars was that the study of international politics must be linked with the study of domestic politics and that China's foreign relations should be developed with economic, scientific, and technological cooperation as a more prominent goal. Toward this end, China should adopt a pragmatic, low-key foreign policy based on equality and mutual benefit.

The participants also warned that China must be cognizant of the many new problems as well as favorable opportunities created by detente. China must thoroughly and radically readjust its foreign policy, born of the era of confrontation, to one appropriate for an era of dialogue. Even more importantly, China needs to make cooperation and competition the central theme of its foreign policy response to detente. China's strategy should be to use reform as a way to increase its comprehensive national strength. This strategy requires a systemic framework and complete and fundamental political structural reform that includes reform of the foreign policy-making process.

The death of Huan Xiang was considered by all to be a substantial loss to international and foreign policy studies in the private sector and a serious loss of a communications link with the highest policy-making level of the government. It was suggested that the way to solve the latter problem is to speed up reforms that make the foreign policy-making process more scientific and democratic. The reporters noted that the Soviet Union has already taken steps to do just that for its own foreign policy-making process, citing Foreign Minister Eduard Shevardnadze, in a statement in IZVESTIYA, saying the Soviet foreign ministry has established a public opinion research center. Explaining the move, Shevardnadze was quoted as saying: "We decided to establish such an institution because we do not think that the public's opinion is backward but that it is instead ahead of [the government's] actions." Shevardnadze was described as finding it inconceivable to have a foreign policy that does not seriously consider public opinion. He said "Generally speaking, it is very likely that public opinion will gradually become a real catalyst for the social and political conscience. Reform has already created a national situation in which public opinion cannot be ignored." Using the Soviet deployment of troops in Afghanistan as an example, Shevardnadze pointed out that if decisions are "subjectively made by a small circle within the leadership without considering the opinions of experts and without conducting a scientific analysis of the possible results, the decisions are bound to lead to mistakes."

The reporters also urged readers to think seriously about something Shevardnadze said: "If one does not have newspapers, television, radio broadcasts, and magazines,

in short one does not have the means of public opinion. If one does not have the media, one cannot have a foreign policy nor foreign relations."

UNITED STATES

Analysis of U.S. Scientists' Opposition to SDI
40050429a Beijing ZIRAN BIANZHENGFA
TONGXUN [JOURNAL OF DIALECTICS OF
NATURE] in Chinese No 1, 10 Feb 89 pp 33-34

[Article by Gu Yanxi 6253 3601 6007: "The Movement Whereby American Scientists Are Opposing SDI"]

[Excerpt] [Passage omitted] IV. Conclusions

This paper has described the movement whereby American scientists are opposing the Strategic Defense Initiative (SDI). But it must be mentioned that it is certainly not the case that all American scientists unanimously oppose the Star Wars plan. There is no lack of supporters for the Star Wars plan within American scientific circles, and several famous scientists are included among them. Both supporters and those in opposition have used various opportunities to make known their views. The American MODERN PHYSICS journal printed a large number of letters from readers as a debate on this problem. As it happens, in comparison with those scientists who oppose the Star Wars plan, there are not a lot of scientists supporting this plan, nor have they attracted many followers, and so this paper has concentrated on describing the movement whereby scientists are opposing the Star Wars plan. But is there nothing of value in the Star Wars plan? I would like to offer my own opinion.

The Star Wars plan grew up under the influence of political, military, scientific, and economic factors, but foremost were military reasons, which have been the primary generating factors behind Star Wars. Implementation of the Star Wars plan is sure to raise the real military strength of the United States, and this would push the Soviet Union toward improving its own military strength, further threatening world peace. It is certainly for this reason that scientists are opposing the Star Wars plan. But at the same time, the Star Wars plan is a large scale scientific research project that involves several high technology fields, as for example microelectronics and supercomputers, high energy lasers, new materials, and optoelectronics. Implementation of the Star Wars plan would be certain to bring developments in those high technology fields. It is estimated that high technology will have a greater and greater share of future technology markets. For this reason, these high technology developments would not only be accompanied by technological advantages, but would also generate enormous economic results. In fact, other countries are even more concerned about the significance of this aspect of

Star Wars, not the military aspect. Because these high technology developments will allow the United States to grow rapidly in the next century while maintaining its position as a powerful nation. It is in this regard that the Star Wars plan is a greater threat to other countries. As a direct result of this plan, various countries have quickly formulated plans to develop high technology. The Western European countries have joined to carry out the European Cartel plan, Japan has drawn up an outline by which to invigorate science and technology policies, and member nations of the Council of Mutual Economic Assistance headed by the Soviet Union have drawn up a comprehensive program for advances in science and technology by the year 2000. China, too, has responded. Because China does not have the base by which to develop high science and technology, we have only made a partial adjustment of the science and technology system. But developing high technology has been made a long-term development goal for the state (see the report by Zhao Ziyang at the 13th CPC National Congress). These things are different from the U.S. Star Wars plan in that the development of high technology by these countries is primarily for civilian purposes.

Historically speaking, much advanced technology has been developed from military needs, only after which does it see broad civilian use. For example, the Manhattan Project to develop the atomic bomb led to the human application of atomic energy, and computers were developed out of the need to calculate artillery trajectories. The Star Wars plan is currently underway, but can the high technology that will develop from it be used widely in peacetime applications? We will have to wait and see.

Since the Star Wars plan can stimulate the growth of advanced science and technology, why would American scientists be so adamantly opposed to it? In my opinion, rather than say that the scientists are opposing the particular plan that is Star Wars, it would be better to say that they are opposing Reagan's pro-war attitude. Everyone knows that Reagan was a hard-liner regarding the Soviet Union, and that he constantly advocated resisting the Soviet Union. During his presidency, the U.S. military strength increased enormously. His advocacy of the Star Wars plan was a military competition with the Soviets in the field of strategic defense. This was contrary to the desires for peace among the majority of American scientists, and so met with their ardent opposition. We cannot help but wonder if advanced science and technology were being developed under a Star Wars plan for civilian purposes, would the American scientists be then so ardently opposed?

EAST EUROPE

Lessons Drawn From Eastern Europe's Reform Experience 40050539

[Editorial Report] Shanghai GUOJI ZHANWANG
[WORLD OUTLOOK] in Chinese No 7 of 8 Apr 89

carried on pp 3-6 an article discussing the new difficulties facing Poland, Hungary, Czechoslovakia, and other Eastern European countries in the wake of bold, controversial reforms carried out since January, and draws lessons for China from Eastern Europe's experience.

The author, Mei Zhenmin 2734 2182 3046, notes that reforming Eastern European countries now face some new problems and even crises. They are:

1) Rising commodity prices and serious inflation. The author points out that last year Poland's inflation rate was 70-80 percent and Hungary's was 16-17 percent. Since the beginning of the year, Hungary's standard of living has fallen to the level it was in 1973. Mei notes that in countries such as Czechoslovakia, Bulgaria, and East Germany, whose economies have not undergone as much change, the rate of increase in commodity prices has not been as great. However, some of these countries experience serious shortages of consumer goods.

2) Worsening foreign debt, with some countries now unable to repay their debts on their own. The author points out statistics from the Soviet monthly ARGUMENTY I FAKTY [ARGUMENTS AND FACTS] that reveal that combined Soviet and Eastern European debt exceeds \$130 billion. Among these countries, Mei notes, Poland, and Hungary are in the worst shape, with Poland owing \$33.7 billion or 4.35 years worth of its annual exports and Hungary owing \$17 billion or 2.83 years worth of its annual exports. Says Mei, these countries have no choice but to negotiate new loans and extensions on their debt payment periods with the IMF and the World Bank and to accept the various conditions of these lending institutions, such as that public expenditures and subsidies for consumer goods be reduced.

3) An explosion of newly formed, unofficial organizations, all created without official approval and all demanding to share political power with the ruling party. The author notes the rising crescendo in demands, starting from "discussion of diverse views" to "political pluralism" to a "multiparty system." Mei notes that the new organizations are of different types and persuasions. Not all are political in nature; the ones that are demand and support reform with the goal of benefiting their own particular interest group. Then there are truly procapitalist organizations that demand wholesale westernization. Others are ethnic separatists that threaten national unity while still others oppose reform and want to stick with the old system.

4) A growing tendency among the public to doubt on the one hand the correctness of the direction taken and whether reforms can succeed and on the other hand to increasingly demand that reforms be quickened and that economic reforms be accompanied by political reforms. These different demands of the public only serve to exacerbate the debate and power struggles within the leadership.

Common Problems Give Rise to Differing Solutions

The author observes that while the reform problems facing East European countries are similar, their responses differ in content and in degree. Poland and Hungary have adopted bold measures such as establishing a dialogue with the opposition and moving toward a multiparty system while Czechoslovakia has chosen suppression. Mei points out that the countries not only suffer from internal differences on the appropriate response but also differ one from the other in the degree of flexibility or resistance. The Romanian government is clearly opposed to introducing market mechanisms or parliamentary democracy. East Germany, Czechoslovakia, and Bulgaria advocate economic and political reforms, but are leery of or outright oppose the multiparty route of Poland and Hungary. Hungary and Poland on the other hand have expressed displeasure with Czechoslovakia's crackdown of the demonstrations in January. The pressures to change to a multiparty system have also been felt in the Soviet Union where scholars have openly published articles calling for a multiparty system there.

Lessons for China: Appropriate Speed, Correct Measures Key to Success

From his examination of the Eastern European experience, Mei Zhenming draws the following conclusions and lessons for China:

1) The steps that must be taken to change a rigid system to one full of vitality will be complex, many, conflicting

and contradictory. Says Mei, to think that reforms can be made overnight is unrealistic.

2) During the transition between the old system and the new, there lurks the danger of loss of economic and political control. The key to avoiding these problems is to ensure that the speed of reform is appropriate and the measures taken are correct. The author warns that it is dangerous to either hasten reform or to artificially halt it.

3) Since socialist countries are characterized by supply-constrained economies and a disconnection between value and price, inflation is inevitable. The author says that great care must be taken to prevent serious inflation and urges that price deregulation be done gradually and that the state should by no means relinquish central planning, central intervention, and macroeconomic control at the same time that it introduces market mechanisms.

4) Eastern Europe's experience shows that the reform process often gives rise to nongovernment groups advocating various agendas. While the leanings of these groups may differ greatly, the majority are socialist in nature. Mei warns that these groups and their agendas must be handled correctly if the socialist road is to be maintained and if past mistakes of widening the conflict are to be avoided.

5) Mei points out different social groups often have different attitudes and demands regarding reform. Therefore, he says, it is especially important that when problems arise, there must be good communication, dialogue, and negotiation between the government and the people if social stability and progress in reform is to be made.

United Front Work Discussed

40050318a Hong Kong CHING PAO [THE MIRROR]
in Chinese No 139, Feb 89 pp 36-38

[Article by Rong Zhang 2837 4545]

[Text] *From now on, some positions in all government offices, from various ministries and commissions under the State Council on down to those on the provincial, municipal, district, and county levels, must be held by persons affiliated with democratic party factions or others with no party affiliation. To select truly outstanding competent individuals who have persuasive powers to convince the large complement of cadres, the people, and even the democratic party factions themselves of the task at hand to promote construction, reform, and democratic oversight in a beneficial way, is obviously not attainable immediately.*

Becoming Chief Adjutant to Yen Mingfu [7051 2494 1788]

To be a female cadre is difficult, but to be a female cadre with principles is even more difficult. This is the way Wan Shaofen [5502 4801 5358] feels about her political life experiences.

As the first female secretary of a provincial committee of the Communist Party of China (CPC), Wan Shaofen's rise is an example of hard work and outstanding achievements. Last year, after three years in Jiangxi politics, Wan was relieved of her post as secretary of the provincial committee and transferred to Beijing. For a time in the beginning, she was vice chairman of the National Labor Union, but due to factors that should not have occurred, she lost her post in a subsequent election, tasting political loss for the first time. People at home and abroad had paid considerable attention to the outcome. Later on, she was formally appointed deputy chief of the CPC's United Front Department, as the former deputy chief had been elected to be the first deputy chairman of the All China Federation of Labor and Commerce, and his attention was diverted gradually to this national "business" organization. Since Wan Shaofen was already a central committee member, it was quite obvious that she would become Yen Mingfu's chief adjutant.

Wan Shaofen, who disciplines herself with "faith, diligence, and honesty," places particular emphasis on proper party discipline on the part of the ruling party, and on a politically democratic system. Not only is this related to her personal experience in politics, this is also a topic for heated discussion during the present course of political reform—participation of democratic party factions in politics.

In 1985, when the Communist Party of China promoted "younger participation" among leadership ranks, Wan Shaofen was appointed provincial committee secretary for Jiangxi Province. At the time, there was much

discussion expressing different shades of opinion. Some people said, "The only female provincial secretary in the whole nation!" "Congratulations to the party Central Committee for this creative action!" "Victory to great women!" But others also said, "How can a woman who has no family to take care of know how to take care of a province?" Still others leaned on the excuse that Wan Shaofen was a "League-assigned" cadre, for before her appointment, she had had a personal meeting with Hu Yaobang [5170 5069 6721] while he was on an inspection trip to Jiangxi Province.

It was reported that Hu Yaobang came to Jiangxi Province in November 1984 and met with standing committee members of the provincial committee, which included Wan Shaofen. Later on, some former Communist Youth League members requested a meeting with Hu, and Wan was also in this group meeting since she was an alternate for the Communist Youth League to the CPC Central Committee back in the 1950's. There is no substance to the story of the personal meeting.

The First Female Secretary to a Provincial Committee

In the late 1940's, Wan Shaofen had participated in student movements. During the early days, after the Chinese Communists took power, she was the first assistant secretary for the municipal committee of the Nanchang Communist Youth League. Later on, she attended the CPC Central Committee's Communist Youth League School for additional education, after which she assumed the posts of League secretary for a large scale aeronautics plant in Shenxi Province, and of labor union chairman. She was persecuted during the Cultural Revolution, and it was not until after the 1970 "Liberation" that she was assigned to Jiangxi Province to be in charge of intellectual and youth work, then transferred to the deputy chief post at the Jiangxi Provincial Department of Labor. In 1983, she was promoted to director of the Jiangxi Provincial Women's Federation, and was responsible for establishing more than 1,000 survey units in the province to expose marriage rackets involving kidnapped women and young children, child brides, abandoned female infants, and some disquieting prostitution that had practically been abandoned in small towns and villages. She was always on the go, and depended heavily on the broadcast media to publicize her message calling for protection of women's legal rights. The province held a total of 142 mass meetings pronouncing judgment on more than 1,300 criminals who were punished for attacks and cruel treatment of women and children. The masses praised the provincial women's federation for "performing such good acts benefiting the nation and the masses." The provincial women's federation even established a legal counseling and leadership office that trained female legal specialists on all levels. Through self study, Wan Shaofen also took the legal examination that qualified her to be a lawyer. At the same time, she sponsored and opened a school for female cadres, to train women and help them develop their intellectual potential. Following this, a

provincial children's foundation and a family education research group were also set up. Wan Shaofen was also the chief editor for a volume titled "Childhood Education—Conversations on Family Education." Because of her outstanding work, the picture of efforts on behalf of women and children in Jiangxi Province had been changed. For the first time, the All China Women's Federation honored a director of a women's federation on the provincial level with a citation.

In April 1984, the duties of chief of organization were added to her duties as a member of the standing committee of the Jiangxi Provincial Committee of the CPC. At the same time, she was selected by senior party officials as a study subject for the "third-step team" of leadership cadres.

It was reported that when Bai Dongcai [4101 2767 2624] was in charge in Jiangxi Province, Wan Shaofen was among young cadres recommended by the provincial committee to higher officials of the Communist Party of China. After repeated checks and investigations by high and low, she was appointed to be the first female secretary of the provincial committee of the CPC.

Positive and Negative Effects of Three Years in an Administrative Post in Jiangxi Province

As to the work performed by Wan Shaofen in three years as secretary of the Jiangxi provincial committee of the CPC, related organizations and offices have the following evaluation:

During the three years that Wan was in charge at the provincial committee, the economy of the province continued to develop on an even keel; financial receipts also showed a relatively large increase; the growth of gross output of industrial and agricultural products, in value, exceeded the national average; and rehabilitation and construction in the older sections of the province also showed comparatively good results. She sponsored and called a meeting on rehabilitation and construction in the older sections, in which she proposed 1988 as a starting point for goals resolving problems of food and shelter in three years, and of poverty in five years. Practical measures were also adopted. Through efforts by all, the livelihood of the people living in these older sections has been improved, and they are satisfied.

Wan was serious about following the principle of a democratic centralization system, was open to views of others, and she would take serious problems to the standing committee for decision after discussion. She adhered to her principles, and confronted and fought against bad influences.

Under her direction, "Six Resolutions for Strengthening Self Structure in the Provincial Committee" was drawn up to help members of the group support related offices and to help agencies deal strictly with unlawful and disorderly cases. This rectification in party discipline

had a positive effect. Devoted intensely to her work, Wan took responsibility for the good and bad. Diligent and persevering, she was a proper CPC member and maintained close ties with the masses.

Wan Shaofen felt that her work during the Jiangxi period was a "victory," as economic growth exceeded that of the national average, financial receipts grew by 20 percent for three years in a row, and the people's livelihood showed marked improvement, with problems of food and shelter resolved for 90 percent of particularly destitute households, and the economic picture vastly changed in the older sections of the province. When the Communist Party of China opened the 2d Plenary Session of the 13th CPC Central Committee last spring, the CPC authorities looked her up to discuss transferring her to Beijing. Naturally she was willing, but did ask for an order for her to finish her term and complete her work in Jiangxi. In the end, she submitted to the immediate transfer, and relegated her duties to the new secretary Mao Zhiyong [3029 5268 3938]. She then left Nanchang by air on June 6.

For a successful commander to be recalled to headquarters, there must be other reasons. Wan Shaofen admits that as a cadre leader, a woman must work three times as hard as a man. With reference to women nationwide, she feels if they cannot shoulder leadership positions with complete involvement in administrative tasks, they should not try.

Shortly after Wan Shaofen was appointed as secretary to the provincial committee, she assumed responsibility to establish a 7th Five-Year Plan for the province. The plan proposed to depend on the actual resources and capabilities of the industrial sections along the Zhejiang-Jiangxi Railway that runs through the center of the province to accelerate industrial construction along the Yangtze River around the city of Jiujiang. The construction projects would include development of port, transportation, and communication facilities, in addition to developments in tourism, food, weaving and garment industries, etc. By strengthening efforts to open southern parts of the province to link up with Fujian and Guangdong provinces economically, and through adjustments in the property structure, better transportation, and stepped-up efforts in tapping the energy and natural resources of the region, Jiangxi would establish an economy centered around trade, industry, and agriculture that is adapted to the Zhu Jiang [Pearl River] delta and the southern Fujian triangle.

Some people think Wan paid attention only to using the older established sections of the province to help the poor sections, and overlooked the economic construction going on in northern Jiangxi. This is very misleading. Not only was she in charge of a development strategy for the whole province, she paid regular attention to construction in over ten town and county units in northern Jiangxi. The Great Yangtze River Bridge at Jiujiang is an engineering project of national focus, 770

meters longer than the great bridge over the Yangtze at Nanjing. The building of this bridge had already been going on for more than ten years, and the bridge piles were already in place above water, when, due to shortage of funds, construction was forced to stop and most of the working crews left the site. The capital invested in building the bridge had already totaled several hundred million yuan, but Wan got in touch with officials in Anhui and Hubei provinces to raise more funds, and traveled to Beijing to seek help from Vice Premier Wan Li [5502 6849], Commissar Song Pingho [1345 1627 0735] of the Finance Committee, and Minister Ding Guangen [0002 7070 2704] at the Ministry of Railways. She also accompanied the vice premier on an inspection trip to the work site. As the result of her efforts, work on the bridge was able to continue. The Great Yangtze Bridge at Jiujiang is expected to be completed for vehicle traffic next year, and the port there for foreign trade will also be finished.

With respect to work done to help impoverished older sections in the province, Wan Shaofen, as chairman of the Jiangxi Older Sections Rehabilitation and Construction Committee, had proposed a list of practical measures dealing with poverty to revive these areas. These measures included introduction of investment capital, facilities, techniques, and manpower to open up these areas for development—with commodity production, tapping of resources, export of labor, etc., to implement a great change in the economic picture of these older sections that were showing a great increase in peasant income. Already a large volume of products has been shipped out, including bamboo goods to Australia, pressed ducks by the millions to countries of Southeast Asia, and over 10 million ducks to neighboring Guangdong Province. Related agencies of the Communist Party of China have been referring to this as "the experiences of Jiangxi in finding solutions to poverty."

Strict Adherence to Party Discipline a Defense Against Villains

However, during the time that Wan Shaofen was practicing party discipline and honesty in her work, it was only understandable that she might have infringed on someone else's interests. When she first assumed her position in the beginning as secretary to the provincial committee, she had proposed six resolutions for restructuring the work discipline of the committee, which stressed honesty and propriety, no special privileges, practicality, efficiency, etc. Wan also advocated bold use of innovative people. But an innovative cadre is not equivalent to one who says, thinks, and does what he wants, as long as it is profitable, with no consideration of the national interest and benefit to the people. As the result, it was necessary to support the upright and suppress the wicked, with clear distinctions between reward and punishment.

When the commissar of discipline for the central committee of the CPC, on the basis of exposures by Hong Kong sources and the people of Jiangxi Province, investigated

the case of Ni Xiance [0242 3759 4595], the former governor of Jiangxi, Wan Shaofen was very open in her support of the action. But she said herself that she could not conjecture any evidence when there was none. She recommended limiting the investigation to the higher-ups. Some people felt she was "soft" on cadres related to this case. Others said this was a personal struggle between Wan and Ni. At present, Ni Xiance's family members are distributing leaflets accusing Wan of bringing down the governor, and are making up stories that working units were coerced into making certain statements.

At an important meeting of the CPC last fall, Wan made an unselfish statement, in which she hoped cadres who have the courage of their principles, adherence to party discipline, and daring to investigate and expose deviations and evil influences would be protected, and not conveniently transferred, just because someone had been offended, and complained in "loud calls." Otherwise, she said, this perverse trend would be sustained in its attacks against a healthy atmosphere.

Wan Shaofen also talked about the time she lost in the labor union election, including the fact that someone believed the rumor of her losing in the Jiangxi provincial committee election. Evaluation of her work had not been released to any of the delegates, so many people did not understand the situation. Be that as it may, quite a number of delegates voted for her, and many were disappointed when she was not elected. Wan took this in stride, knowing she had done her best. She feels that voting by proportional representation, as compared to voting by equal representation, is still a form for broadening democracy. However, it needs improvement. To create an equal, transparent and open political environment that has leadership and order, we must also be sure that candidates for election are not subject to uncalled slander and attack. Sometimes, vicious rumors spread so rapidly that the election is over before the truth is sorted out and the damage contained.

Preliminary Participation of Democratic Party Factions in Politics

It is known that under Deng Xiaoping and Zhao Zhiyang, a development policy of perseverance, perfection, and abundance under a system of multi-party cooperation and political consultation under CPC leadership has been proposed. With new historical conditions, the definitions for all democratic party factions and the standing, function, and responsibility of each organization are made even more clear. It is hoped that even more people belonging to different democratic party factions, and people with no party affiliation will participate in the work of the government. This is a development need in democratic structuring. Toward this end, we must select a large group of talented people from outside the party to assure the cooperation of people inside the party with those outside.

Shortly after Wan Shaofen was transferred to her post with the United Front, she personally stated that she was

still in the process of learning her new job. In the past, when she was secretary for the provincial committee, she made the acquaintance of many democratic party faction members and other individuals, with the general feeling that "two may be too much, but one is too little." This means that while numerous communications may be circulated, few ideas are heard before a decision has to be made. At present, by promoting a system of multi-party cooperation and political consultation under CPC leadership, a process appears for increased understanding of unification in the CPC. This situation is also found in democratic party factions.

Of course, practical measures have the problem of an overall planning office or bureau and of practical steps that have to be taken. In the past, when the CPC was advocating placement of more younger members in its leadership positions, it adopted a rather strict system within the party for selecting, training, and establishing a reserve cadre team. However, a comparable set of criteria was lacking for nonparty people. Consequently, a rather large gap was noted in the structure of other democratic party factions and that of the business and labor federation. For example, right now all government offices from various ministries and committees of the State Council on down to those on the provincial, municipal, regional, and county levels need to have some positions filled by persons with, or without, other democratic party faction affiliation. Electing truly talented representatives who are conscientious in their work, and persuasive in their relations with the large numbers of cadres, the masses, and even the democratic party factions, is beneficial to promoting construction, reform, and democratic oversight. This is something that cannot be achieved immediately.

In the view of this writer, at the 7th National People's Congress, there was something brewing for democratic party faction members to assume national leadership positions. If the election were held like that in the 1950's, the already-approved constitution would have to be revised and the numbers of persons holding office would have to be increased. Moreover, it would require numerous discussions before March by the standing committee of the NPC. Take the present nominations by the various

democratic party factions and study the contents, which indicate it may not be possible for action to be taken on this proposal this year. As for including the roles of democratic party factions in the constitution, it would involve problems concerning Hong Kong, Macao, and Taiwan that need serious and careful study.

Since Yan Mingfu was appointed as chief of the CPC's United Front, the work of this department has continued to grow by leaps and bounds. Not only was there great activity on the ideology front, it also made many contributions, its relationship with democratic party factions and those with no party affiliation became more harmonious, and it made great progress developing contacts overseas. In the last two years, new replacements for the old in the democratic party factions have been almost completed. These changes provide conditions for their political participation. However, we must admit that while a scholar or professor may be very capable at discussing politics, this is quite different from assuming practical leadership of a province, city, ministry, or committee. From decisionmaking to the art of leadership, there is a training process in which leadership experience is gained in stages. Of course, it is impossible to expect a complete preparation, for timewise it is not necessary for a CPC cadre to take that long. Concerned agencies and organizations are studying practical ways to realize this goal.

It is said that some democratic party faction members think that advance publicity or propaganda is not required for any one reform measure as it may have too much shock potential. Otherwise, the adverse effects will be seen later if the measures to achieve it are not attainable.

It can be predicted that after the 2nd Plenary Session of the Seventh National People's Congress, several democratic party faction members or persons with no political party affiliation will be elected to posts as ministers or vice ministers, particularly in departments dealing with legal oversight, culture and education, science and technology, health, etc. Their numbers participating on the provincial, municipal, and district levels will also show a corresponding increase.

NATIONAL AFFAIRS, POLICY

Article Urges Preparedness for Potential Stagflation

40060544 Beijing JINGJIXUE ZHOUBAO in Chinese
9 Apr 89 p 1

[Article: "The Spirit and Policy We Should Have To Prepare for 'Stagflation'"]

[Text] Can "stagflation" occur in China? Along with continuous inflation, people have also pointed out that this is a new problem for China. Very recently, several theoretical discussions of inflation were held in Beijing, and some differing opinions were expressed concerning the topic of stagflation.

People generally believe that the implications of economic "stagnation" should be suited to China's national characteristics. However, for specifics, there was considerable variance in the views expressed. One view holds that because of the low benefits of China's economy, with a growth rate which has fallen to 5 percent, fiscal, and employment pressures would make it difficult for the economy to endure. Another view has it that whether the economy "stagnates," depends on whether there is an effective increase in supply. If the low growth rate industrial structure is effectively adjusted, this could raise the macroeconomic benefits, and there will be no stagnation.

Views also differ on whether "stagflation" could occur in China. Those who hold the view that it could happen here are especially at odds in the reasons for their views, expanding on the overall causes of inflation by including such matters as the industrial structure's misalignment, enterprise contracts, financial responsibility and foreign trade responsibility, and right now, the coming peak in our loan repayments. Another viewpoint holds that China's economy provides so much flexibility that even with the industrial structure's misalignment, it will still be possible to maintain an adequate growth rate for the long term.

Theoretical inquiries have reached a different conclusion. Actual occurrences have their own logic. Theorists make use of actual tests and revise them. To reach an understanding of "stagflation," they require some facts to supplement their theories.

After the retrenchment policy was put into effect, because banks severely reduced their credit and the retrenchment created a serious payment crisis among enterprises and created for many enterprises a serious cash flow deficiency, so that the cash flow of some key large-scale enterprises was cut by from one-third to as much as more than half. This created major insufficiencies in the enterprises' preparation of natural resources. This will certainly be reflected in the next several months' production.

Several months' retrenchment and adjustment not only did nothing to improve the enterprise structure, they

actually tended to worsen it. Increased shortages of coal, electric power, and transport further aggravated an already below capacity situation. Up to now, we still have seen no effective measures for adjusting the enterprise structure. Adjustment of production reserves was hindered for systematic reasons. The investment structure also has not produced any sign of an obvious tilt in favor of short-line enterprises. Instead, when any improvement is made in the investment structure, it takes a minimum of 3 years to take effect. These have all caused a continuous decline in production. In the first two months of this year, the rate of growth in industrial production declined month by month, with the decrease even clearer for state-run industries. Some important industries which are provincially operated had a less than 4 percent growth rate. The financial income according to the prices currently in effect showed only a weak increase, with some major provinces actually showing a decrease in excess of 30 percent.

In another aspect, although price rises went into double digits, there was no clear indication of a drop in purchasing. This was due to an excessive increase in funds for consumption, and the pressure brought to bear in recent years by purchasing power from a cash surplus. Moreover, digesting a 100 billion yuan drop in surplus purchasing power, raises the possibility of these becoming stable savings deposits, something very difficult to realize in the near future. Add to this the decline in production and the decrease in supplies, and it becomes even more difficult.

It can be seen from the above facts that it is very possible for the extent of the economic growth rate to decline, while controlling inflation could be very difficult. Therefore, some specialists warn that there is absolutely no way "stagflation" can be avoided. Of course, if "stagflation" should appear in China, the mechanisms which create it will differ from those in Western nations. If we are unable to make obvious improvements in the production structure and effectively reduce society's needs, then we will be unable to avoid making the difficult choice between inflation and approaching stagnation. It is also possible that even though growth might stop, inflation still might not come down. The way to fundamentally resolve this is to eliminate the factors which cause inflation.

Encouragement To Ensure Lower Inflation in 1989

40060442 Beijing JIAGE LILUN YU SHIJIAN
[PRICE—THEORY AND PRACTICE] in Chinese
No 1, 20 Jan 89 pp 2-6

[Article by Cheng Zhiping 2052 5268 1627: "Jointly Work To Ensure That This Year's Price Rises Are Markedly Lower Than Last Year"]

[Text] I. Preliminary Results After a Decade of Price Reform

There were many problems with China's price and price management systems prior to the 3d Plenary Session of

the 11th National People's Congress [NPC] Central Committee. They are mainly seen in the following respects:

First, the price system is irrational. Regarding industrial and agricultural commodity price parity, industrial commodity prices are higher than agricultural. Among agricultural commodities, price parity relations are uncoordinated. Among industrial commodities, there is a wide gap in the parity price differences among minerals, energy resources, raw materials, and processed industrial goods. Before price reform, a kilo of (paddy rice) and coal were 0.18 yuan and 0.016 yuan, respectively. Such low prices naturally were disadvantageous to the development of agricultural commodities and energy resources. Price differences for many commodities are still irrational. For example, top quality goods do not sell for top prices. There are no differences in price between off and peak seasons. And selling prices of a minority of commodities are lower than purchasing prices.

Second, the price management system is irrational. Prices for all commodities are uniformly set by the state. Thus it is very hard to make accurate and appropriate adjustments in line with the rapid changes in a commodity's production technology, costs, market supply and demand, etc. Therefore, prices of many commodities reflect neither their value nor supply and demand.

Although there was little change in commodity prices and the amount of price rises were very small (approximately 1.2 percent annually) in the more than 2 decades before price reform, however, due to the aforementioned problems, prices did not play their proper role in the state economy and they could not forcefully promote production growth. What appeared to be price stability was actually a case of supply shortages, monotonous styles and colors, and even cases of prices for which there are no items. Such price conditions are unsuited to the demands of opening to the outside world and enlivening production. They are also unsuited to the demands of developing a planned commodity economy as well as disadvantageous to the smooth implementation of overall reform of the economic system. Therefore, we must undertake price reform.

China has achieved preliminary progress in reforming the price and price management systems in the past decade, guided by the 3d Plenary Session of the 11th NPC Central Committee resolutions, under the correct leadership of the party and the government, in line with the needs of socialist modernization and reform of the economic system, and by adopting the principle of uniting price adjustment with price releases. During this decade the people have achieved the most material benefits and actual growth of the state economy has been most rapid. Attainment of such great success, including the results of price reform, is indivisible from firmly upholding overall reform.

China's price reform first of all proceeds from procurement prices of agricultural commodities. These prices have been an important issue to which we have always paid great attention since China is a huge country with a large population but little arable land. Over the past decade, procurement prices of China's agricultural goods rose nearly 1.4-fold, of which procurement prices of grains rose approximately 1.2-fold, more than the rise in the 28-year period from the early founding of the country until 1978 (agricultural commodity procurement prices rose 1.17-fold from 1950 to 1978). The sales price rise on rural industrial goods was comparatively small because there was a big rise in the procurement prices of agricultural goods. By using the same index for agricultural commodities of a decade ago, they can be converted into nearly double the industrial commodities of the time. For example, 100 kg of 1978 paddy rice was equivalent to 79 kg of table salt; by 1987, it was equivalent to 134 kg of table salt. Considered nationwide, over the last decade approximately 40 percent of the increase in the peasants' income was due to increased output; approximately 60 percent was due to higher prices. This manifests the party's and the government's close concern for the broad masses of peasants and great support for agriculture.

Changes in producer prices of industrial commodities over the last decade are beneficial to the rational readjustment of the industrial mix and the commodity mix of China's state economy. There have been varying degrees of change through measured and sequential readjustment to the long-term rather low prices of basic industrial goods and rather high prices of processed industrial goods in China. Over the past decade, basic industrial commodity prices have nearly doubled. For example, coal prices per ton rose from 17 yuan to 33 yuan; raw material commodity prices rose approximately 72 percent; processed industrial commodity prices rose approximately 33 percent. This progressive price rise is beneficial to developing our energy resources and raw material industries that have long been deficient. Naturally, in China, reliance on support of planned state investments and various policies is the most important thing in strengthening the durability and accelerating the growth rate of the energy resources and raw material industries. Simple reliance on pricing is far from adequate.

Regarding retail pricing of consumer goods, the chief measures adopted have been the following: One, raising and lowering the prices of industrial consumer goods. Prices were raised on cotton cloth, aluminum pots, detergent, tobacco, and alcohol. Prices were lowered on chemical fiber cloth, watches, and certain electronic goods. Two, releasing prices of some industrial consumer goods and sideline food products, such as famous brands of tobacco and alcohol, bicycles, radios, poultry, and aquatic products. In addition, prices of miscellaneous goods were fully released. However, the overall level of retail prices on consumer goods rose. According to data from the State Statistical Bureau, the rise in recent years of the past decade for the combined index of nationwide

retail prices was comparatively small, at approximately two percent. During the preceding 3 years (1985 to 1987), the rise was comparatively large, at 8.8, 6, and 7.3 percent, respectively. In 1989 the rise has been even greater. There are three types of higher prices, namely, arbitrary rises, higher prices due to inflation, and structurally readjusted prices. The state firmly opposes and deals seriously with arbitrary rises. Improved efforts must be made to overcome higher prices due to inflation. As for higher prices stemming from rational readjustment of the price structure, they should be allowed since they are beneficial to economic growth. In getting hold of the overall level of consumer prices, we must do a good job of uniting the basic interests of the masses with present interests, on one hand in accord with the need to expand production and on the other, by considering the masses' endurance abilities. Developing socialist productive forces is the basic task of socialism. The state's and the people's basic interests reside in prices beneficial to production. Price rises naturally have a definite affect upon the lives of the masses, so they should not exceed society's ability to bear them. Looking back on the past decade, the rate of increase in income of the broad masses of workers and peasants was greater than price inflation. Over the past decade, worker and peasant incomes rose approximately 1.7-fold and 3-fold respectively. Subtracting price inflation, the progressive increase in actual per capita worker and peasant incomes was approximately 4 and 12 percent, respectively. These figures are far higher than the progressive increase rate in actual per capita worker and peasant incomes, of 0.4 and 3.3 percent respectively, from the early founding of the country until 1978. It is a fact obvious to all that the lives of the vast majority of workers and peasants have improved to varying degrees. The present contradictions are: although the economy is very lively and economic strength grows daily, there have been actual instances of clear inflation and some disorder; and, the people are dissatisfied, and their dissatisfaction and moodiness are on the rise even though the lives of the vast majority of the people have greatly improved. These are matters of progress. The masses are very opinionated about the present price inflation, mainly regarding arbitrary price rises. They want inflation eliminated. The vast majority of the people still support and endorse essential structural readjustment of prices under price reform.

In sum, the direction of China's price reform of the last decade has been correct, and the steps taken are in accord with the spirit of important resolutions made by the party and the government regarding price reform since the 3d Plenary Session of the 11th NPC Central Committee. Still, the task of reforming prices is far from finished. Many questions in the area of pricing await resolution. The main issues are parity prices of certain important commodities are still too irrational, and the profits of some industries are either too high or low; there is too great of a scope and gap regarding the dual pricing system of production materials; we still must explore and improve new (adjustment and control) measures for commodity prices that have already been

liberalized; the price supervision and inspection systems are still imperfect. Inspections are neither widespread nor strict. Pricing legislation and administration are unsuited to the needs of development. In particular, in 1989, retail prices are too inflated. This has become a major prominent issue in economics attracting society's general interest. During a period of the next 2 years or perhaps a little longer, we must stress improving the economic environment and rectifying the economic order, and unite these with overall reform of the economic system. We must gradually smooth prices and further change mechanisms for price creation and price adjustment and control under the premise of strictly capping the rate of price inflation. This is very important not only to economic growth and reform in the near term but also will make a good foundation for economic growth in the next century.

II. How To Eliminate Present Hyperinflation

Since 1988, China's overall economic situation has been good. This is mainly seen in the sustained growth of social production, flourishing commercial purchasing and selling, and comparatively large growth of import and export trade. However, there are still many difficulties and some economic issues should not be overlooked. Prominent among these are the clear rise in inflation and the continued large rise in prices. According to data from January to October of 1988 compared to the same period in 1987 by the State Statistical Bureau, the combined index of nationwide retail sales rose 17 percent; it rose 20.7 percent in 31 medium- and large-sized cities. Three stages can be found in changes to the retail price index during the past several seasons. The first stage was from January to June, when the rate of price rises gradually increased. The second stage was in July and August, when the rate was the largest. The third stage was from September, when price increases weakened and gradually stabilized due to the adoption of a series of price stabilization measures adopted by the State Council and local governments. In sum, there was too much price inflation in 1988, which indicates that there actually and clearly is inflation in our economy. Why is this so? Mainly because of an overheated economy, an overly rapid pace of industrial growth, too large a scale of fixed asset investment, and over inflated consumption funds. These naturally cause imbalances between total social supply and demand, a fiscal deficit, and an oversupply of money in the economy. There are other important factors promoting price hyperinflation. The total amount of currency in circulation exceeds the total amount of commodities available for purchase, so it is now hard to avoid currency devaluation and price inflation. Of course, poor agricultural harvests and lower output of edible oils also take their toll. Price hyperinflation is also due to lax market management and lax price controls. Producers and managers worry that raw materials or inflation on commodities will hurt a unit's interests, so they anticipate inflation when setting commodity producer prices or sales prices.

The 3d Plenary Session of the 13th NPC Central Committee proposed an entirely correct policy of improving the economic environment, rectifying the economic order, and deepening overall reform. It is an important strategic decision, both a "temporary" and a "permanent" cure. The central government expressly indicated that all work must be subordinate to this point so as to ensure that price rises in 1989 are clearly lower than in 1988. This is entirely necessary. We have full confidence in the realization of the central government's policy because of many beneficial factors. First, at all levels throughout the country, thinking is comparatively consistent; this policy has been endorsed by the broad masses of cadres inside the party and outside it, as well as the masses; and everyone is of one heart and mind, determined to strive to defeat difficulties as they arise. Second, there was increased output of many agricultural and basic industrial goods. Defeating difficulties has a definite material basis. In the 1960s economic problems were a case of falling production and reduced supplies while the present issue is one of increasing production that still cannot satisfy rising demand. Third, all have begun thorough implementation of work, from the central government to local governments. They have formulated a series of specific policy measures. The majority of the 20 policy measures proposed by the Central Committee are for detailed deployment and are being actively undertaken. During the 3d Plenary Session of the NPC, Beijing municipality clearly promulgated that there would be no new price adjustment measures in 1988, and that it would ensure supplies and stable prices of rationed supplies to urban residents of grains, edible oils, sideline agricultural products and daily necessities. At present, the situation is fine. Tianjin municipality also did a lot of work. It announced to the masses in the last third of September that prices of commodities under municipal control would be held firm to achieve "stable markets, prices, morale, and conditions." Many provinces, municipalities, and autonomous regions are undertaking this work. Some have cancelled certain scheduled plans to raise prices. Others have restored to original levels prices previously adjusted upwards.

Regions and relevant departments throughout the country are earnestly and thoroughly implementing and striving to realize the State Council's recently promulgated "Resolution on Improved Price Management and Stricter Control Over Price Inflation." Its main points are as follows:

(1) We must firmly stabilize prices of the masses' basic necessities on the basis of expanding production. Selling prices of grain and edible oil supplies rationed by the state to urban residents uniformly shall not change. Mayors must undertake responsibility for improved production of vegetables. They must plant more "vegetable gardens," and stabilize "vegetable baskets." Prices at open vegetable markets in big cities may not be liberalized. The State Price Bureau must provide timely information and make surveys of vegetable prices in big cities. Everyone must work together to maintain the

basic stability of vegetable prices. Prices may not rise on rationed pork supplies in big cities. Industrial items closely connected to the daily lives of the masses may not be taken off the shelves or go out of stock. Retail prices on staple commodities must be publicized in public. Some cities, such as Taiyuan in Shanxi Province, have already publicized them to the masses; others are preparing to do so in order to make supervision by the masses easier.

(2) We must manage well production material prices. We must have specialization of and strictly prohibit reselling at a profit important agricultural production materials such as chemical fertilizers, and agricultural chemicals and sheeting. We must stipulate unified selling prices and prevent arbitrary increases. Improving the authority, efficiency, and completion of maximum prices, everyone in China, including the SEZs, is uniformly implementing newly stipulated strict price control methods over staple industrial production materials under planning such as coal, steel, and nonferrous metals, thereby improving the methods for determining maximum prices of important production materials outside of the plan.

(3) We must appropriately intervene in the production, circulation, pricing, and other aspects of relatively important commodities whose prices have been released. Regarding relatively important varieties of commodities whose prices have been released using markup declaration systems, for example, refrigerators, washers, black and white TVs, and bicycles, pricing departments can postpone or veto an enterprise's request for a markup in line with the need to control prices. It is stipulated that price differences will control voluntary price rises on some commodities, such as certain industrial items brought in from other regions. For the convenience of the masses and to ensure market supplies, commodity prices will continue to be released and enlivened.

(4) We must correct arbitrary collection of fees. From next year, charges imposed by public utility and services trades under state control closely connected to the lives of the masses shall not be raised. Everyone reacts very strongly to the present arbitrary charges imposed by certain hospitals, schools, and other units. Expert investigators must unite with the masses and thoroughly investigate and correct these matters.

(5) We must seriously discipline prices, beginning with severe treatment of transgressions and contrary behavior. First, local governments must strictly implement State Council regulations and prohibit voluntary higher prices. Arbitrary higher prices made by various departments and enterprises including collective enterprises and individual small retailers definitely have to be handled severely. Serious cases must be made public to augment public supervision. Investigations of prices cannot be a mere puff of air. They must be regularized, systematized, and opened up to the masses.

Some comrades may worry whether adoption of the above-mentioned stronger management and strict control measures will affect the deepening of overall reform. This worry is unfounded because the present appropriate management and stronger adjustment controls are precisely intended to create a better environment and provide essential conditions for economic reform, including price reform. Furthermore, improving these methods is an inherent major part of price reform. Some of the methods are essential today as well as in the future. At the same time, we must act in line with changes in economic conditions, continuously readjusting and revising our methods, making them accord with the need for deepening price reform and beneficial to its continued deepening.

III. Price Control Depends on State Adjustments and Controls and the United Effort of All Society

Ensuring that the rate of price increases in 1989 is clearly lower than in 1988 is one of the two central tasks for the entire party and country in 1989 as well as an important resolution of the 3d Plenary Session of the 13th NPC Central Committee. General Secretary Zhao Ziyang clearly noted that it is a test of the leadership and driving capabilities of our party and government. In reality, this is more than an economic issue; it is also a political issue. Considering China's strategic national economic development target of reaching the level of the middle range of developed countries within the next few decades, the state economy must exhibit long term, stable, and coordinated growth. The only way to realize our economic development strategy target is to get rid of the present overheated state of the economy, shrink the scale of over-investment in fixed assets, overcome excess consumption, and suppress the overly high rate of price inflation. If we allow the economy to overheat and prices to jump, this will naturally lead to overly high wages and interest rates, an increased fiscal deficit, and a bigger credit gap, thereby creating more economic, social, and political problems. China's economy is now more developed than in the past, yet our endurance ability is still weak. Food expenditures for the majority of workers account for 50 to 60 percent of total living expenses. For many people, little money is left from monthly income after food and clothing expenses. Thus, the high price rises of 1988 had to be curtailed. We could not allow them to continue. In sum, for the sake of stability, economic growth, and deepening of overall reform, it is necessary to control prices and ensure that the rate of price inflation is clearly lower in 1989 than 1988. At present, to control prices means to stabilize people's thinking, and market, political, and economic circumstances. Because of this, the Central Committee's resolution noted that all work must be subordinate to and serve this point.

Some comrades ask if we can actually keep prices down over 1988 rises? Comrade Zhao Ziyang has said that it would appear to be difficult for China to lower prices; however, we should be able to allow them to rise a little

less. This can be done if all work together at it. The ancients said, "It is impossible for Taishan Mountain to exceed Beihai but not unthinkable. It is possible to break branches for our esteemed elders but it is not done." A little lower price inflation is also a "possible" matter. The crux of the matter is how we "do" it. We should strive together to keep price inflation in 1989 clearly lower than in 1988. In essence, this requires that comrades at all levels of leadership further unite their thinking, and stress the overall point of view, discipline, and long-term stable, coordinated economic growth. Macro-adjustments and controls are the decisive factors. All regions and departments must strive together, firmly and earnestly implementing effective "better to pass the top a bit than not have enough" measures, including really cutting off and curtailing over-investment in and over-lending for fixed assets, not at all softheartedly checking overly inflated consumption funds, ordering and rectifying companies, and improving withdrawal of currency from circulation. We must harshly prohibit group purchasing of some commodities in order to thoroughly shrink the purchasing power of social groups and check extravagant consumption. At the same time, we must strive to have good agricultural harvests, improve and appropriately increase effective supplies of industrial and agricultural commodities that should be increased, gradually achieving a basic balance between total social supply and demand. Implementation of these measures definitely depends on sacrificing some secondary, partial interests. Furthermore, we cannot tolerate softheartedness. We must strictly enforce the law for offenders. In sum, this requires that every region and department, commodity producers and managers throughout society, and all consumers put forth real effort and struggle together to ensure that the rate of price inflation in 1989 is clearly lower than in 1988.

Cadres and workers in state organizations should play an exemplary role in implementing policies and laws. First, they should do their own jobs well, increase production, reduce consumption, and improve efficiency for the sake of price stability and price controls. They should not engage in activities detrimental to this demand. Second, to have consumer awareness requires that they consciously protect market stability, take a leap forward in savings, stabilize finances, not make buying assaults on commodities that are not urgently needed, ignore rumors of inflated prices, and not lash out at the market. Likewise, they should actively take part in price supervision and inspection, motivate the broad masses, and assist the relevant departments in curbing price inflation behavior. And then, in terms of education on the situation, they must act as both students and teachers, publicizing their own correct understanding and propagating the great achievements of a decade of reform. At the same time, they must explain the proper attitude to adopt in overcoming price hyperinflation. In order to improve the people's ability to understand the psychology behind price reform and increase the broad masses' confidence in reform, they must explain clearly to the masses and improve the clarity of their explanations.

Study Examines Behavior of State Enterprises in Inflation

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[Article by Du Haiyan 2629 3198 3601, Zhang Yonggang 1728 2837 0474, Zhong Jiyin 0112 3444 0995, Chen Yimin 7115 0001 3046, and Dai Rui 2071 4213 of the economic research institute, Chinese Academy of Social Sciences, in December 1988: "Behavior of State-Owned Enterprises Amid Inflation"¹]

[Text] People were much concerned about the continuous inflation during the past year. We shall, basing on the actual data obtained from our investigations, analyze how inflation affects China's economic progress through the behavior of state-owned enterprises.

I. Situation of Pricing and Enterprises Panic About Prices

Even though people have yet to prove that inflation, being associated with reforms in a centralized economy, was intermittent in nature, the continuous price rise has become common in China's progress of economic reforms. According to estimates worked out by relevant authorities, China's social index of retail commodity prices went up by 45.7 percent between 1978 and 1987; meanwhile, the amount of money in circulation increased by 625 percent. Between 1984 and 1987, the

excessive monetary growth was calculated at about 5 to 8 percent per year after making allowance for economic growth, structural pricing readjustment, and factors of economic monetarization. Therefore, inflation was always here, either in a hidden or open way, ever since the economic reforms were started.

However, facts of our enterprises showed that the price rise in the means of production before 1987 was basically limited to an "extent tolerable" by enterprises. For example, in the years 1984 and 1987, the amount of revenue received by our enterprises was reduced by 25 and 76 percent of its total profits because of the price rise of means of production. In return, these enterprises passed the burden onto others by increasing the price of its products, so that their actual losses were only 7 and 20 percent. In 1988, however, the price increase became more serious. Prices of major raw and processed materials were constantly increased by a large margin. The general trend was that prices of these materials started increasing in early 1988. The pace quickened from May until September, when it subsided. At that time, the prices of some materials were still increasing sharply, while some became stable at a higher level. The following are the facts of price rise in raw and processed materials experienced by our sample enterprises. Since the significance of market and the geographical conditions of enterprises varied among each other, not all of them experienced the same price difference between their price and the average national price. Nevertheless, this can still basically reflect the national trend of pricing (1988 yuan).

| Type Enterprise | Unit | Price at Beginning of the Year | Price in September | Major Sampling Reflecting the Prices |
|---------------------------|------|--------------------------------|--------------------|--|
| Rolled steel (cold plate) | Ton | 2,200 | 5,800 | Wuhan Refrigerator Plant |
| Rolled steel (wire rod) | Ton | 7,000 | 15,300 | Wuhan Wiring Share Company |
| Pig iron | Ton | 280 | 790 | Linan Machine Tools Plant |
| Lead | Ton | 2,650 | 7,000 | Zhenjiang Accumulators Factory |
| Nickel plate | Ton | 30,000 | 120,000 | Linan Internal Combustion Engine Parts Factory |
| Aluminum ingot | Ton | 4,000 | 13,000 | Linan Internal Combustion Engine Parts Factory |
| Imported pulp | Ton | 3,000 | 5,500 | Linan Papermaking Factory |
| Silkworm cocoon | Dan | 310 | 840 | Linan Silk Factory |
| Coal | Ton | 135 | 250 | Linan Cement Works |
| Cement | Ton | 110 | 250 | Linan Cement Works |
| Titanium-platinum powder | Ton | 8180 | | |

Almost all sample enterprises panicked when facing such rapid and sharp price rises in raw and processed materials. Even enterprises engaging in trades that could pass the price rise onto others indicated that the rise was theoretically and practically intolerable. This could not but affect the rationality of enterprises' behavior.² An unstable price level and confused price relations turned the market into a black hole that enterprises were afraid to approach. Serious inflation prevented the role of readjustment by market mechanism from functioning effectively, so that enterprises lost the objective basis for rationality in their behavior. Their panicking mentality

projected a forthcoming inflation, thereby strengthening their disbelief of the market. This further stimulated irrationality in enterprises' behavior, and intensified uneasiness of the market, thereby creating further and serious inflation.

II. Behavior of Purchase: The Extent of Search for Freedom Becomes Narrowed, Order of Allocation of Resources Is Disrupted

Absence of absolute shortage. Being a systemwide phenomenon, shortage has become a normality of a planned

economy. Moreover, people came to the conclusion that continuous price rise was caused by shortage. Practically speaking, however, it seemed that shortage was a pricing phenomenon. It has been common in China's economy that demand was greater than supply. However, it is of special significance that such a phenomenon was reflected by an abrupt and sharp rise of prices within a short time. In fact, some surveys on enterprises showed that the extent of raw and processed materials shortages in the market might not be large. Rather, it was simply because the prices quoted by sellers were intolerable. Although many enterprises did not get a "normal supply" of raw and processed materials, they often received calls asking whether they need those materials, but the prices quoted were too high. Therefore, the common shortage was a manifestation of lack of cooperation between the buyer and the seller in their current transactions, so that prices quoted by the seller were not accepted by the buyer at a given time. Proceeding from this point of view, the actual transaction price of raw and processed materials in the market might even be higher than that not accepted by the buyer. Thus, it is obvious that there was a dynamic time function in the formation of shortage points manifested in terms of pricing.

Shortage develops shortage. In an effective market, any price rise will check demand or stimulate supply, so that a new market equilibrium will be achieved. However, the supply of many resources on the market was not markedly improved because of the price rise. Our sample enterprises in Linan, Zhejiang, showed that their supply of coal became intensified following a price rise of more than 1.5 times. Therefore, "a high price level does not successively ease an intensified situation." On the contrary, such price rises further promoted the tendency to hoard or the behavior of postponing transactions among enterprises that were sellers, as well as in the circulation process. Consequently, shortages further intensified the

situation within a short time through price rises. And such phenomenon got worse in the wake of introduction of more circulation processes. As many people took part in business transactions, the profit margin of price rise was absorbed by the circulation processes, while producers were unable to get benefits from such price rise. It might be the major reason for being unable to increase the supply by readjusting prices.

Enterprises protested most strongly about difficulties brought by changes in the supply channels of their raw and processed materials. The raw and processed material used by Zhenjiang Accumulators Factory was lead. In 1987, its planned lead supply was 1,400 tons, or 43 percent of its consumption amount. The figure was 1,000 tons in 1988, or 20 percent of its consumption. However, the actual amount was only 50 percent of the planned supply amount. Meanwhile, the difference between the planned price and the nonplanned one was rapidly widened in the wake of a spiral increase (see table below). As a result, the enterprise consumed all of its inventory, and its profits were eroded by the cost. It was estimated that in 1988, the annual price difference of the enterprise's raw and processed material totaled 6.4 million yuan. Since the rate of realizing the planned supply of raw and processed materials dropped, many enterprises responded in such a way that they abstained from carrying out the mandatory tasks which they promised to undertake. This would stimulate a chain reaction of not fulfilling the planned targets. It should be said that under the circumstances where the market was at a transitional period of moving from a dual-track pricing system toward a single one, and where the shortage situation was yet to be fundamentally changed, it was normal that enterprises found it difficult to purchase. However, many of the present difficulties in purchasing were caused by human factors.

| | Unit: Yuan/ton | | | | | |
|-------------------|----------------|-------|-------|-------|--------|-----------|
| | January | April | June | July | August | September |
| 1988 | | | | | | |
| Planned prices | 2,130 | 2,420 | 2,640 | | | |
| Nonplanned prices | 2,650 | 3,200 | 4,500 | 5,000 | 6,500 | 7,000 |

Buyers have little choice. In a typical market, factories have a wide scope of freedom in search of access to information about commodity prices, and in minimizing the extent of widened price difference. Therefore, price uniformity in the market determines its equilibrium. In a typical planned economy, factories are subject to the control of centralized planning, and their choice is so limited by such planning that they find no chance for an opportunity. Thus, the market equilibrium is achieved by planned regulation. Following our economic reforms, enterprises had more choice, more freedom to search for ways to balance their costs. However, in the wake of intensified inflation and clouding of the market, their scope of search became limited. Meanwhile, pricing

became monopolized, and equilibrium was determined by monopolization because of the low cost of price readjustment. Zhenjiang Titanium-Platinum Powder Factory reflected that, in recent months, its raw and processed materials supplier sent cable to them almost every month, informing the factory that they were about to increase prices. Enterprises that consumed such materials had no choice but to accept the unilaterally increased prices—they would lose their source of materials if they refused to accept such prices. It seemed that such phenomena were very common, and there were cases in which contracts were not performed. As prices increased in a random manner, the actual price moved gradually toward the monopoly price amid confused price relations.

Therefore, on the one hand, inflation boosted the strength of sellers in monopolization, causing a sharp price rise; and, on the other, the psychological feeling of panic about the price rise forced buyers to accept prices at an economically intolerable level, causing enterprises to engage in a buying spree despite price rises. When the market price of silkworm cocoons needed by Linan Silk Factory was increased from 200 yuan per dan to 400 yuan, it was so costly that the factory was unable to make a profit. However, the enterprise purchased the product in a hasty manner when the price shot up to 800 yuan. This is because the enterprise predicted that the silk price would sharply rise in the following year, and it decided to purchase the product before they had worked out any plan. Therefore, projected price itself could further promote inflation. In addition, enterprises' behavior of seeking shortcuts and waiving their purchase choice still put the enterprises in an unfavorable situation, thereby further encouraging hasty purchasing.

Allocation of resources depends on the capacity to pay. Theoretically, all mechanisms that are effective in allocation of resources can effectively check inflation.³ Amid intensified inflation, it was inevitable that the situation of allocation of resources deteriorated. A drop in realization of planned supply showed that the function of readjusting the circulation of goods and materials through planning was weakened, so we were unable to exert influence on pricing. At present, resources flow toward factories that are able to pay. Under normal circumstances, the capacity to pay corresponds to the capacity to make profits, so that such allocation of resources is effective. In the wake of inflation, however, financial credit relations became unstable, so the capacity to pay was distorted by various economic and noneconomic factors. Generally speaking, soft budgeting binds and strengthens all enterprises' capacity to pay. However, inflation caused changes in the situation. For example, some enterprises whose economic results were not very good found that they could endure the price rise in raw and processed materials better than enterprises with good economic results. This is because the assigned target of profit and tax delivery to this type of enterprises was too low. Nevertheless, the important factor in expanding enterprises' capacity to pay was whether they were granted loans. But a grant of loans to an enterprise was not necessarily a reflection of its actual line of credit. For example, a sample enterprise in Wuhan was granted loans worth 25 million yuan although it owned fixed assets worth only 500,000 yuan. This was mainly because the manager of that enterprise was capable in negotiating with banks. If the capacity of an enterprise to pay was not determined by its capacity to earn profits, this showed that the effectiveness of allocation of resources had dropped. Sometimes, the capacity of enterprises to pay was determined by their price projections. Under soft budgeting, such projections would further strengthen the enterprises' capacity to pay, so that the objective basis of allocation of resources, that is, competition between buyer and seller, would be missing.

III. Behavior of Selling: Increase of Choice and Readjustment of Nonmonetary Revenue

Market structure is tilting in favor of the seller. Even though reforms have promoted progress in market development, it has not put an end to the nature of monopolization on the part of sellers. Under inflation, it was unable to promptly readjust the supply. Various measures for expanding supply could bring only hope to the people but could not promptly ease the contradiction of uneven supply and demand. On the contrary, inflation deceptively expanded market demand while bringing about a buying spree, thereby further deteriorating the contradictory market supply and demand relations.⁴ The widespread inflation projection and buying spree directly affected the selling behavior of enterprises. First, improvement of sales conditions changed the nature of the market. For example, the market for cassette radio-recorders was at first nearly saturated. When we drew conclusions from the sample enterprises in Wuhan, however, we saw that its demand had recently increased sharply. Those who had placed orders lined up at the entrance to factories in order to pick up the product. Its price, which continuously dropped since 1986, bounced back and returned to the previous level by September 1988. Moreover, excessive demand had brought into the market commodities that were regarded as an ineffective supply and had been stored for a long time. For example, the market sales volume of Jiefang shoes made by Hunan Rubber Shoes Factory rapidly grew within a short time. This kind of market situation, which is highly in favor of sellers, transferred the sales cost to consumers. For example, Zhuzhou Hard Alloy Factory made its users voluntarily absorb all sales cost of its products. Changsha Motorcycle Factory, which developed by basing production on bicycles, originally overstocked a large quantity of poor bicycles. Many users voluntarily proposed to act as agents to sell some of its bicycles in order to purchase its motorcycles. This kind of "application" arrangement showed that under the circumstances where inflation continued to intensify, the objective basis of fair competition between the buyer and seller was practically missing.

Market credit contracted. Contractual relations established on the basis of mutual trust among factories are the product of development of commodity-currency relations and the division of labor among markets. However, the inclination of markets in inflation caused a sharp drop in the credit ability of the buyer and the seller. It was shown by sample enterprises that it has gotten more and more difficult to enter into long-term contracts with suppliers. A large quantity of futures transactions was replaced by barter trade, and payment made on delivery of goods was replaced by advance payment. It became common that delivery of goods was not made on time. For example, it was reflected by Zhenjiang Accumulators Factory that its original supplier was unwilling to continue to supply lead to it because it was out of stock. However, it seemed that the amount of lead in market circulation was never really

reduced. In fact, it was very common practice for enterprises to change their target users in order to avoid developing direct conflicts with users by increasing prices. Therefore, the contractual system was gradually disintegrated amid intensifying inflation.

In the wake of mutually growing mistrust among factories and market chaos, barter trade was often the basis of transactions. For example, in order to ensure the supply of scrapped steel, Zhuzhou Iron and Steel Mill exchanged goods and materials with salvage companies and supplied them a certain proportion of rolled steel in exchange for badly needed raw materials, whereas these salvage companies made additional profits by selling the rolled steel. Generally speaking, orderly economic activities would greatly reduce the cost of transactions, thereby promoting emergence of an organized market and making transactions among enterprises an established practice. Furthermore, the development of China's market worsened under the impact of inflation, and carried more characteristics of a commodity economy at the early stage. This included the practices of passing off poor-quality goods as good ones, seeking staggering profits through speculation by reselling some purchased raw and processed materials badly needed for production, and so on.

Out-of-market sales transaction of goods and rights. We are afraid that the most abnormal behavior of sales is sales without a market nature. As sales were simply turned into a right vested with the seller, the choices of the seller were rapidly increased. Under conditions of inflation, the attraction of transactions outside the market was much greater than that of normal market transactions. Therefore, transactions between buyer and seller at clearly marked prices were replaced by "out-of-court activities" and nonmonetary media that made use of various "relations." Controlled price quotes fixed by the state became the objective basis for behavior of out-of-market transactions, as well as the condition for a system of out-of-market transactions under which enterprises were allowed to sell their own products.

According to facts revealed by investigation, most products sold by enterprises were not subject to control by the central or local government. Moreover, when these enterprises had the right to sell through their own channels part of their products not subject to state plans, most other enterprises also had such a right. After they had the right to sell, they acted hastily to avoid using sales channels controlled by the state plans. For example, it was reflected by Zhenjiang Thresher Plant that between January and June 1988, the amount of rolled steel received by the plant decreased by 86 percent when compared to the same period last year. Furthermore, the situation of supplying unmarketable goods subject to planning and hiking their prices became more serious. Under inflation, both the buyer and seller prolonged the process of searching. While the seller sought more opportunities to make profits, the buyer sought acceptable

sales conditions. Therefore, the original exchange relations or the market circulation channels were disintegrated. Diversification of sales channels and chaotic situations became common. In addition, neither the buyer nor the seller was willing to accept a simple market transaction during this prolonged sales process.

Under conditions of inflation, nonmarket transactions were more favorable to the seller, so that it was often the seller who voluntarily made the selection. The most common practice is "transactions approved by officials." As goods in short supply under conditions of inflation were more attractive than currency in terms of exchange, they were sometimes regarded even as a replacement of "hard currency" and were used as a medium of exchange. Therefore, they attracted the attention of some government departments. Some local governments even directly took enterprises' production of goods and materials that were in short supply as a means to seek benefits for the local economy or personal interests. Although production enterprises suffered some price loss, they might obtain other benefits in return, such as reduction of and exemption from taxation, grant of loans, confirmation of investment projects and bonuses, and so on. Even operators of these enterprises might gain benefits, such as being rewarded as outstanding entrepreneurs. It was reflected by a steel mill in Hunan that its rare metal products were often taken away by its supervising units at the parity price, and the mill was left with only 5 percent of the products to sell through its own channels. But the difference between the planned price and the market price was almost 10 times. Eventually, the mill accepted the situation because this was "better" than other arrangements. While selling their products, some enterprises often encountered buyers that had obtained approval from their supervisors. It seemed that this was more favorable to the production enterprises. This is because to establish friendly relations with leaders was, in fact, an important variable determining the operation capability and situation of an enterprise. Therefore, in reality, what developed in quantity because of transactions behavior was the transaction of rights of goods and privileges, which became common. Inflation became a catalyst turning interests under such rights to privileges into monetary benefits. In addition, the more benefits brought by clear relations between rights and money, the more nonmarket sales behavior was stimulated among enterprises. A direct result of development of such behavior was that the amount of commodities available in the market was relatively reduced. This further intensified the shortage, and speeded up the pace of inflation, and spread it wide.

IV. Behavior of Inventory: To Make Profits by Making Use of Time Differences, To Avoid Losses Resulting From Holding Cash

Purpose of keeping stock by enterprises is changed. Inflation makes the behavior of retaining stock almost a prime task in the operation of enterprises. To keep stock of various commodities became a means to cope with the

rigidity of supply and uncertainty.⁵ Furthermore, the behavior of making profits by keeping stock was widespread following an increase of profits derived from time differences (profits derived from changes in price over time).

From our on-the-spot investigations, we found that there were four typical types of behavior of keeping stock among enterprises:

Inventory I: To purchase raw and processed materials ahead of schedule. Inflation helps enterprises understand and make use of rapidly weakening market capability. As a result of the influence of uncooperative attitudes among factories and their inflation projections, enterprises began voluntarily extending their inventory term in order to avoid losses resulting from holding cash in hand. The normal inventory term of Wuhan Radio Factory for plastics needed to produce cassette radio-recorders was two months. However, the factory purchased all materials for the whole year and kept them in stock in September 1988. The continuous price rise made enterprises incur less risk in keeping stock, so that economically ineffective behavior, or even wasting materials, became financially profitable.

Inventory II: Even raw and processed materials available on the spot market were kept although their type, specifications, and quality were inapplicable, in order to exchange them for necessary raw and processed materials. The sharper the price rise, the more the amount of such inventory. This is because purchasing power in terms of goods and materials is often greater than that in terms of currency. However, when an enterprise increased its inventory because of shortages in the market, it created supply shortages for another enterprise. Thus, shortage has the function of strengthening the situation, and it brings about the situation where monetary circulation is out of line with circulation of materials, and the extent of exchange with payment in kind grows.

Inventory III: To seek profits by keeping stock. When the margin of price rise is much greater than inventory cost, there is the objective basis for making profits by keeping stock over time. It was reflected by this enterprise that some raw and processed materials were difficult to find on the market mainly because producers hoarded them until the price went up. This kind of delayed sales also caused shortages due to human factors. Some enterprises even directly withdrew cash to purchase their badly needed goods and materials. For example, following a rise in coal price, an enterprise in Linan County increased its net income of more than 1 million yuan by selling 10,000 tons of coal that it purchased three months before. Such excessively large profits yielded without taking risks as a result of time differences inevitably undermined the normal operations and activities of enterprises.

Inventory IV: To keep stock of workers' means of livelihood. Inflation made state-owned enterprises depend more on the practice of eating from the "same

big pot." These enterprises were worried that the livelihood of workers was not secure or that production would stop. In the wake of more wages made by payment in kind, means of livelihood was also the subject of inventory kept by enterprises. A sample enterprise even built a cold storage facility to store chickens before distributing them to workers at festivals as a way to ease the pressure of rising living expenses. Therefore, panic over price rise creates new feelings for further inflation.

The depository effect of inventory slows down the economy. Inflation was a test of inventory capability for enterprises. Almost all the sample enterprises increased their inventory value, although quantity was not necessarily increased in the same proportion. Some of them even decreased their quantity of stock. The inventory amount of an enterprise was limited by the availability of its capital. Therefore, an enterprise must have sufficient capital in order to keep a large stock. It seemed that the inventory capability was related to enterprises' profitmaking capability and their business situation. For example, Wuhuan Radio Factory had a better inventory capability because its contractual base figures were fixed at a time when the cassette radio-recorder market was in recession. The whole trade got better economic results in the wake of expansion of market demand caused by inflation, thereby providing the financial basis for keeping stock. Nevertheless, only a few enterprises could expand their inventory by depending on their own funds. The inventory capability of most enterprises depends mainly on monetary credit. Therefore, to a large extent, it was banks that actually bore the pressure of inventory. A high return of inventory encouraged enterprises constantly to turn working capital into fixed capital, and to obtain more loans from banks through a "soft budgetary binding mechanism" and by means of negotiations. Therefore, if one said that inventory amount and inventory time were variables that slowed down economic progress, its increase and expansion would inevitably increase absorption of capital by the economic flow. This may be the important basis that inflation will gradually intensify once it is developed.

Actual effects of stock kept by the circulation sector. A drop in the opportunity cost of inventory, as well as the existence of profits from time differences and, in particular, the act of keeping stock by organizations engaging in circulation, accelerated the frequency of speculative behavior that caused shortage. Benefits derived from inflation stimulated development of organizations with better storage capacity and more floating funds. Therefore, they brought about more serious results to the economic flow in the area of inventory. It was reflected by the sample enterprises that they were unable to get the necessary raw and processed materials from their suppliers. However, such raw and processed materials were available in the supply and marketing services companies run by said suppliers, so long as they paid a higher price. Now, more commercial organizations adopted the "self-import" practice.⁶ When goods and materials were purchased from a distant location, several circulation

sectors were involved in the course of delivery, and the price was repeatedly increased. In the wake of extension in delay of circulation, chances of increasing the price were greater and the unstable nature of prices was further strengthened, so that inventory kept in order to seek staggering profits from sales was increased. This stimulated keeping stock from the viewpoint of interests, and a widespread development of such behavior further fueled inflation. The actual influences of this vicious cycle of inflation are: profits to be earned by industry were eroded by that of commerce, and the input of resources into society was simply absorbed by the circulation sector. A high return of circulation undermined the wishes of industrial enterprises in operation. In order to reap more profits through circulation, many sample enterprises started engaging in the "tertiary industry." Therefore, the circulation sector was filled with services units, the circulation speed of goods and materials was slow, and circulation efficiency was low. Thus, actual market development could hardly live up to that impression on the people. In addition, the tendency to depend on the "independent accounting" of industrial enterprises among commercial organizations absorbed the profits made by industry in a depository form, and transformed them into consumption through circulation channels other than the system. If this kind of trade organization integrated with administrative authorities, which are found everywhere, it would act as a catalyst and provoke more market confusion and disorder.

V. Behavior of Fixing Price: Market Deterioration and Anti-"Nash Equilibrium"⁷

To pass onto others is the choice of enterprises. When the price of raw and processed materials rose very sharply, people hoped that enterprises would absorb the increase. However, it was not a question of whether enterprises were able to absorb it. Instead, it was a question whether they were willing to do so. Under the circumstances where there was neither external pressure from competition nor an internal binding mechanism, it was naive to hope that enterprises would voluntarily check the price rise. A survey of 56 enterprises in Zhenjiang showed that, between January and June 1988, the price rise of raw and processed materials caused the expenses of these enterprises to increase by 42 million yuan. But their sales revenue increased by 48 million yuan, so the rate of passing the burden onto others was 114.3 percent. Not only did enterprises fail to absorb the price rise, but added fuel to it.

Proceeding from the current situation, it seemed that enterprises tried to avoid price rise consequences. In addition to acts of passing the burden onto consumers, to which people had been accustomed, there were acts of passing the burden onto the government through readjustment of tax rates and subsidies, onto the banking system through readjustment of interest rates and deferred payments, onto other enterprises through redistribution of income, and so on. Consequently, there was, first, a depreciation of fiscal revenue, so that the actual

purchase power of financial revenue sharply dropped when such revenue was accumulated. Furthermore, the general revision of contractual base figures reduced fiscal revenue. Second, there was a depreciation of monetary credit. Negative interest rates brought additional advantages to enterprises through loan grants, while deferred payments were increased at the expense of banks. Third, the production capability of some enterprises was "depreciated" amid continued inflation. Many enterprises complained that, although they contributed much efforts in production and operations in 1988, their revenue sharply dropped.

The level of passing the burden to others is determined by the nature of the market. The first is the degree of saturation. This indicates the structure of production. Take machinery products as an example. The output volume of this kind of product is generally determined by marketability, because the overall market situation is at the saturation point. Production enterprises are unable to hike the price when demand is reduced. Therefore, negotiations take place in the course of transaction, but not after it. It is mainly to "request" that the enterprise placing the order pay certain compensation for price rise in raw and processed materials. Under these circumstances, the capability of passing the burden onto others by production enterprises is determined by their capability of negotiation, or the result of discussions held by the buyer and the seller. It was rather common that enterprises producing raw and processed materials increased their prices. Then, such price rise was manifested as a producer's right, thereby shortening the transaction behavior between the two parties, and obviously brewing mutual mistrust and an uncooperative attitude. The second one is the extent of market control, which reflects the status of system and structure. Generally speaking, the portion of goods and materials in circulation got smaller. However, the development of structural reform in various types of production and trades was uneven. Differences in participation in the market are naturally reflected by their pricing behavior, thereby forming three types of enterprises with different acts of pricing. The first type was marked by high purchase and selling prices. The second was marked by low purchase and selling prices. The third was marked by a high purchase price but low selling price. Enterprises that suffered most in inflation were of the third type. Take Wuhan Daily-Use Chemicals Plant as an example. On the one hand, the government was unable to guarantee a sufficient and economical supply of raw and processed materials to the plant; and on the other, its products were subject to supply limited orders and at a fixed price because they were part of the government's plan to stabilize the market and were directly related to the national economy and people's livelihood. Due to the price rise in raw and processed materials between 1985 and 1987, the plant increased its expenses by 1.15 million yuan, 1.17 million yuan, and 2.61 million yuan. But since the price of major products remained

unchanged, the amount of profits realized by the plant dropped from more than 5 million yuan in 1984 to 2.67 million in 1987.

Evasion of price control by the government. It seemed that price control amid inflation brought more difficulties to enterprises subject to such control. However, it actually encouraged them to evade the control, and urged them to exploit price rise opportunities on a large scale. The most typical case is the change in pricing structure and manufacture of "new" products. The actual structure of production following price control is: The number of products subject to such control was gradually decreased, the number of products not subject to such control was gradually increased; shortages brought about price control, which in return developed more shortages. Following implementation of price control, many factories would cease production of products that were badly needed and whose price was rising, or switched to production of other products. At the same time, in order to elude price control, enterprises would create "new products" or "name brands." When the price of products subject to such control was checked, and when the price of other products not subject to such control went up, structural changes in the production of enterprises would inevitably bring about a forced substitution of products in short supply, and push up the actual consumer price. Therefore, controls could not alleviate the influence of inflation. On the contrary, it enlarged the scope of control and created conditions for more control. However, in the wake of reform of the extent of commercialization, administrative control could not replace commodity exchange, so that the general price level was still determined by the flexible "index maker."⁸ When the price open to the market rose continuously, it would inevitably be subject to price control.

An uneven monopolization of the market. Theoretically, market price is a product of competition between the buyer and the seller, that is, amid competition in the form of negotiations, both the buyer and seller approach each other and eventually reach a "Nash Equilibrium." Therefore, the difference between the price quoted by the buyer and that by the seller are marks evaluating the degree of market competition. However, in the course of continuous inflation, the scattered state of market price rapidly undermines the capability of the buyer to understand the structure of parity price. The buyer is no longer free to search for sellers, and the cost of doing so is hefty, so the buyer is in a highly unfavorable position in market competition. However, the seller has more freedom to adjust price, thereby minimizing cost.⁹ The seller is in a very favorable position in market competition. As this situation becomes popular, the market structure is monopolized in an uneven way, thereby changing the pricing mechanism and upsetting the "Nash Equilibrium." The price is no longer a product of competition between buyer and seller, nor reflects the actual situation of market demand and supply. Rather, it simply becomes an additive function representing the extent of monopolization.

The result of working against the "Nash Equilibrium" is a withering market. So-called mandatory pricing and maximized pricing, which was established at the previous stage of reforms, lose their economic meaning in the course of inflation, and the actual scope of mandatory pricing is rapidly expanded. The loss of pricing competition between the buyer and seller shows that market development is hindered. The consequent results are that the parity structure of different products and that of the same product made by different producers may be changed at any time, thereby losing the objective basis for stabilizing inflation. Also, monopolization of prices by the seller inevitably pushes up the general price.

VI. Influence on Nature of Enterprises' Behavior by Inflation, and Its Macroeconomic Effects

Inflation stimulates irrational behavior among enterprises from the viewpoint of interests. When the social order switches from one orderly state to another orderly state, the strongest response given by the original order is to expel the new rules of competition. Groups with vested interests, which were formed under the traditional system and whose existence depends on the government, did not have their interests fundamentally impaired in the economic reforms. On the contrary, new groups with vested interests were developed on the basis of dual-tracking system. In order to protect their interests, the original groups constantly gathered together to control prices and promoted a monopolization of market equilibrium. Therefore, there were many cases in which different groups with vested interests avoided competition, and sought nonproduction profits. Moreover, inflation further stimulated the enthusiasm and urge of enterprises to seek nonproduction profits. It was said that whoever raised the price first gained benefits, and whoever failed to do so would suffer economic losses; and that benefits of price rise were much greater than those obtained by improvement in operations. If this was so, it was inevitable that enterprises would spend more efforts and resources on gaining more profits from price changes. Therefore, different groups with vested interests sought monopolization of prices, and scrambled for advantages of inflation, thereby forming an objective basis on which inflation experienced a spiral increase.

Upon an in-depth analysis, it is shown that in practice, inflation exerts influence on different types of enterprise production in varying degrees through changes in enterprises' acts of seeking nonproduction profits. At present, in the course of such changes, the actual transaction price among enterprises is somewhere along a long line between the "planned price" and the "market price." It seemed that only an incompetent enterprise would consume at the market price, while brilliant ones actually consume at or even below the planned price. Actual enterprise consumption often depends on the average parity price of goods and materials, the capability of various departments to "develop" its potential, and the position of enterprises in the market arranged by the government, rather than on competition between buyer

and seller. Therefore, in a certain sense, enterprises' acts of seeking advantages from price difference is also a behavior of pursuing rents. A widespread development of this behavior will make more enterprises take part in competition for pursuit of rents, so that the process of purchase and sale is no longer manifested as an exchange of ownership. Instead, it will be directly manifested as reestablishment of social relationship among people. Some enterprises made use of certain types of monopolized positions in the relationship of exchange, or the "time difference" and "position difference" of inflation, and became "specialized households" of rent pursuit that gained benefits from the price difference under the dual-tracking system. Being the ones with vested interests amid inflation, they added fuel to the development of inflation. Under these circumstances, inflation was unable to be stopped by fiscal policies or monetary policies.¹⁰ Intensified inflation will further stimulate development of rent pursuit, act against measures for inflation control, and disintegrate the market in order to earn more rents, thereby laying the foundation for a more comprehensive behavior of rent pursuit. Therefore, it is difficult to get rid of inflation once and for all if we still simply conclude that inflation is a mistake made by or is found by the government or policymakers, and if we fail to fundamentally change the basic system of "creating rents."

Ineffective economic growth amid the negative "monetary illusion." According to theory on economic growth, it was assumed that a well-organized society may form capital through issuance of currency, in order to fully mobilize all resources. However, this assumption is based on the basic condition that the "inflation rate is appropriate." At its initial stage, inflation may indeed create "monetary illusions" to stimulate an increase in supply. This is because within a short time, producers may have their income increased and consumer purchasing power expanded, so that the government may mobilize more resources. However, this type of "prosperity" rapidly depreciates in the wake of continued inflation. This is because the enthusiasm of supply is only related to real income. Therefore, whenever people generally feel the existence of inflation, the effect of inflation on expanding the economy stops.¹¹ Furthermore, the continuity of inflation made people develop a negative "monetary illusion" (that is, the projected inflation rate was higher than the actual inflation rate) so that the illusory purchasing power of society was increased and enterprises generally acted to protect themselves. The subject of all actions was to act according to one's own projection of inflation. Therefore, it developed the act of purchase, the burden of which could not be borne by the economy, sales for the purpose of taking advantage of price rise, acts of keeping stock in order to avoid losses resulting from holding cash, price formulation without competition, and so on. These actions constituted the objective base for a continuous price rise. Therefore, projected inflation also played a role in stimulating inflation through the acts of those involved. The more

persistent the inflation, the stronger the negative "monetary illusion" a society got and the greater the influence on effective supply.¹²

When continuous inflation is accompanied by readjustment of the parity price relationship, it is of significance in terms of transfer and redistribution of income. In order to avoid losses caused by inflation, people vied with each other for the advantages of inflation. In this competition for advantages, there would be the effect that "good currency is replaced by a poor one," and highly well-organized departments would be in an unfavorable position. This is because the cost to readjust the price was very high for enterprises engaging in the specialized production of certain products and popular products. For example, they were required to obtain approval from the government, wait for the public to accept it, and so forth. Difficulties in this respect thus hindered them from increasing supply and intensified product shortages. Any acceleration and popularization of forced substitution arising from this situation flooded the market with sham and counterfeit goods. Some nonstandard departments and enterprises took advantage of the price rise by means of sham innovation (such as the adoption of the so-called new techniques, new technology, new packaging, and even continuous shift production of "new" products). Enterprises about to be eliminated in the readjustment of industry also revived because they got support from demand.¹³ Therefore, the continuity of inflation not only checked the increase in effective supply, but also stimulated the increase in ineffective or even noneffective supply, thereby affecting the allocation efficiency of social resources, as well as effective implementation of industrial policies.

Inflation forced economic reforms into a dilemma. Inflation seriously affected the market mechanism that was newly formed in the course of economic reforms. Price was no longer simply a function of supply and demand. The popularity of negotiations, restoration of influence from various extra-economic relations on the economy, and sharp increases in transaction costs had made "the market price become an inefficient system in a coordinated economy." Inflation strengthened distrust of the market by enterprises and the public, as well as distrust of various administrative measures adopted by the government to stabilize the economy and tackle inflation. This helped disintegrate the market and developed a feeling of distrust toward the government. When these two added together, both enterprises and the public acted to protect themselves, which, to a very large extent, offset the effects of counterinflation measures adopted by the government. Therefore, the direction of reforming the market triggered inflation, which in return disintegrated the market. It seems that this has proved a statement by Friedman: "The road to hell is paved with good intentions."

It should be said that inflation is a self-protection response of the market mechanism in order to make the market develop in a direction marked by order and

equilibrium. Under the present circumstances, however, inflation failed to make the market mechanism speed up selection of enterprises. On the contrary, it actually passed the work to the government through soft budgetary binding: Should there be rigid taxation and the situation where enterprises independently assume market pressures and are allowed to suffer losses or go bankrupt, and the market mechanism's role of survival of the fittest is given play, or should the government actively intervene in the market and provide various protective policies to enterprises? Should it be a control of income where inflation is allowed to erode the interests of consumers, or a situation where income figures are turned into indexes, and consumers are entitled to compensation and more consumer subsidies in order to protect their interests and to pursue a stable society? Should we allow workers to become unemployed, and the formation of a free labor market in order to check rising wages by mobility, or should we protect the rigid employment and social welfare systems? We shall pay the corresponding price no matter what choice we make. As of now, the government favors the latter choice. To a large extent, this passes the pressure of inflation onto the government in the form of exchange between inflation and the government authority. If the government aims to stabilize inflation, it cannot but pass part of its tax collection onto enterprises and consumers. However, such a choice cannot eliminate the basic system for the development of inflation. On the contrary, it makes it more difficult and places an extra burden on the government to handle the inflation issue.

Footnotes

1. In September 1988, a team for the study of reform in state-owned enterprises, formed by the economic research institute, Chinese Academy of Social Sciences, conducted on-the-spot studies of 40 state-owned enterprises in Wuhan, Changsha, Zhenjiang, Linan, and so on. This article is based on the data and materials obtained in the studies. The types of enterprise mentioned in the article are only industrial ones, and the behavior of enterprises is mainly short-term market behavior. Comrades who also participated in the studies and discussion mentioned herein include Dong Fureng (5516 6534 2093), Tang Zongkun (0781 1350 3540), Hua Sheng (5478 3932), Liu Xiaoxuan (0491 1420 3763), Liao Qun (1675 5028), Shao Liling (6730 0196 3781), Chen Xiaomei (7115 2556 2734), Wei Anning (1414 1344 1337), Miao Zhuang (5379 1104), Wang Xi (3769 5409), and so on.

2. Inflation will affect the behavior of enterprises in two aspects, namely, first, the present pricing trend; and second, forward pricing projections. The study of Mexico and Argentina conducted by Blejer and Leiderman showed that nonprojected inflation was the major factor affecting price changes.

3. See "Abnormal Resources Allocation in Inflation" by C. Pear, CYBERNETICS No 2, 1988, vol 19.

4. According to statistics from the national statistics bureau, during the period between January and September 1988, the production of energy increased by 4.4 percent when compared to the same period of the previous year, while production of some important raw and processed materials such as silicon steel sheet, welded steel pipes, copper, pig iron, and so on, dropped. During the same period, production of machine tools increased by 20 percent, that of automobiles increased by 38 percent, that of internal combustion engines by 28.7 percent, that of electronic components by 36 percent, and that of consumer goods by 37.7 percent. The gap between supply and demand of energy and raw and processed materials sharply widened.

5. See "Inflation and Unemployment" by Friedman, *Collection of Speeches by Winners of Nobel Prize Economic Scholarship*, published by the publishing house of the Chinese Academy of Social Sciences, 1986 edition.

6. "Self-import" refers to the purchase of raw and processed materials or products, through the individual efforts of circulation departments from channels other than the normal one, and its basic economic meaning is that price control imposed by local pricing departments may be unsuitable to price rise in such way.

7. Nash Equilibrium refers to an equilibrium in the difference between the high price quoted by the seller and the low price quoted by the buyer in a price struggle under the condition of being uncooperative.

8. Von der Laan proposed in 1984 that commodity price was a myth of commodity price in an exchange economy, in which flexibly priced commodities were referred to as "index makers." Its price level determined the price index of other commodities within this chain. JOURNAL OF ECONOMIC THEORY No 43, 1987 p 203

9. Western economists hold that price readjustment carries a high cost. Not only does it involve replacement of price tags and recalculation, but also to help consumers understand it anew. However, the cost of price readjustment hardly exists in China. At least people need not understand it anew. But this simply shows that education on market development was poorly run and there was insufficient competition.

10. Friedman said in his speech on presentation of the Nobel Prize that inflation backed by monopolized production could not be stopped by any fiscal policy or monetary policy. See *Collection of Speeches by Winners of Nobel Prize Economic Scholarship* published by the publishing house of the Chinese Academy of Social Sciences, 1986 edition.

11. Lucas held: Inflation could play its role of economic expansion only when changes in the general price level are mistaken for changes in relative prices, that is, unforeseen inflation. Therefore, the economic growth

rate is a function of "monetary illusions." Quoted from DYNAMIC ECONOMICS No 11, 1988.

12. W. Louis held: "Regardless of the efficiency of a government, inflation may become a spiral if it becomes very serious (it is assumed that the rate of price rise exceeds five percent a year), and lasts long enough (it is assumed that it lasts for more than four years)." See COMPARISON OF ECONOMIC AND SOCIAL SYSTEMS No 4, 1988.

13. This may be the reason that some enterprises utilizing obsolete technology were very active although recent losses of enterprises, and recent cases of suspended production were increased.

Young Economists Discuss Large Enterprises, State Ownership
40060497 Shanghai SHIJIE JINGJI DAobao
in Chinese 17 Apr 89 p 2

[By Beijing correspondents Fang Xiaoming 2075 2556 2494 and Xu Yishui 6079 2496 3055: "Discussion With Young Scholars and an Enterprise Manager on a Solution for the Problems of the Large Enterprises—Government To Relinquish Its Role as Owner"]

[Text] Under the double pressure from medium and small enterprises on the one hand and from the local governments on the other hand, the large enterprises suffer one setback after another. A possible idea for a reform of China's ownership system presents itself in the trend in the developed capitalist countries of having legal persons as shareholders.

Under the present situation of retrenchments, China's large enterprises are faced with a three-fold dilemma, namely shortage of capital, shortage of energy sources, and shortage of raw materials. What is there to be done? Where is the solution for revitalizing the large enterprises? For a discussion of this issue, our Beijing office invited the young scholars Li Su [2621 5126], He Zongze [0149 1350 3419], Liu Jipeng [0491 4764 7720], Zhang Zhongliang [1728 0112 2733], as well as Chen Qiaosheng [7115 2884 3932] of the joint Second Rolling Stock Plant industries.

On analyzing the situation, the participants at the meeting said that the ineffective way of the reform measures created two large reversals, which have the large enterprises face an increasingly unfavorable external competitive environment. The unjustifiably egalitarian release of management rights without touching on the question of property rights caused confusion in the levels of ongoing competition and caused a reversal in the position of large enterprises competing with medium and small enterprises. Because they are restricted by command-style planning of the state, large enterprises cannot fully achieve all possible economic returns and activate all technological advantages, while the innumerable medium and small enterprises, who are comparatively

free from plan restrictions, frequently vie with the large enterprises in buying up raw materials and capturing markets, which places the former into an extremely unfavorable position. According to an investigation regarding nonferrous metals, several large smelters, bound by the restrictions of plan prices, cannot possibly make a profit in their production, and even operate at a loss, while town and township smelters, although they produce an inferior quality of metals compared with the said large smelters, can afford to buy ore at high prices and sell their products at even higher prices, thereby gaining high "economic returns." This unfair competition can only result in strangling the large enterprises, in sabotaging social productive forces, and in a further deterioration in the distribution of resources.

The contractual financial obligation places the local governments in a similar position as the large enterprises; this is the second reversal caused by the ineffective execution of the reform. Out of consideration for their own benefits, local governments resort to blockades of markets and policies biased in favor of their localities, and thereby join the ranks of those competing with the large enterprises. Under the double pressure, namely from the medium and small enterprises on the one hand and the local governments on the other hand, the enterprises suffer one setback after the other.

Under the present condition of retrenchment, the large enterprises must take action in two directions, namely in efforts to improve the external environment and in efforts to perfect the internal operational mechanism. The large enterprises must take full advantage of the present juncture of retrenchment and make an effort to secure government support. The 1984 retrenchment ended with the retrenchment of the large enterprises. If the present retrenchment is kept on for another 2 years, the meshes in the net will become smaller and smaller, and as a result many medium and small enterprises will be caught in the net. If all measures by the government include support for the large enterprises, combined with a policy slanted in favor of industry, in a helpful situation like this, it would actually amount to lifting one corner of the net of retrenchments. The large enterprises must take advantage of this opportunity, seek an improved living space, and put the squeeze on the medium and small enterprises, push them out of the ranks of competitors of large enterprises, and push them into a different level of operations to make their living.

More important in taking advantage of the present opportunity of retrenchments is that the large enterprises must energetically work on perfecting their operational mechanism. While perfecting the enterprise contract system, the enterprises must strive to overcome the shortcomings in their own management, explore new ways to transform the internal operational mechanism, and go the way of forming conglomerates. Large enterprises may internally try out shareholding systems, and allow within the enterprises an organization for fixed assets to grow up, namely the conglomerate, convert the

production units under the enterprise into stock companies, and have production management submit to the restrictions of other shareholders.

If large enterprises take over medium and small enterprises, they should develop in the direction of intensified processing of products, and must avoid taking over entire enterprises, as otherwise they will undoubtedly burden themselves with bankrupt enterprises. In this respect, methods adopted at the capital may serve as an example. Whether in improving internal composition or in taking over bankrupt enterprises, the large enterprises face the problem of redeployment of redundant personnel. One feasible way out of this dilemma would be to establish a profit-earning social relief fund society, and having part of the state-owned assets of the bankrupt enterprises and of the large enterprises brought into the said society as shares. It is only by perfecting their internal operational mechanism and also by not sending off all redundant personnel that the large enterprises will be able to attain the benign cycle of self-accumulation and continuously improving productivity. As they are being pushed out of the ranks of competitors of the large enterprises, the medium and small enterprises are faced with an increasingly fierce struggle for existence. This process of a struggle for survival of the fittest is presenting an excellent opportunity for the widest transformation of medium and small enterprises into stock companies. Only in this way will the large enterprises gain living space, can they take over medium and smaller enterprises, and effect a redistribution of key elements of production. At the same time, a large volume of key elements of production could be converted to private property, formed into private stock companies, and achieve larger economic returns.

Participants at the meeting pointed out that the reform of the large enterprises and that of the medium and small enterprises must be carried out simultaneously under the conditions of retrenchment. If China's large enterprises are unable to utilize this opportunity of retrenchment for an effective reform of their own mechanism and for the expansion of their living space, they will sooner or later, as China's commodity economy progresses, suffer defeat. There are several stock companies, including privately run and those of Sino-foreign ventures, that develop very rapidly. The large enterprises should feel a sense of crisis, and should make the retrenchment an important juncture for their own reform and development.

The participants at the meeting pointed out that the fundamental resolution of the problem of how to revitalize the large enterprises lies with a reform of the ownership system. If the government will not relinquish its role as owner, be it enterprise reform or price reform, both will miss their target. It is now necessary to call to mind some theoretical problems of the reform. For instance, in the matter of separating government administration from enterprise management, a matter which has all along been pursued for all these years, why has

this separation not been achieved? If the government does not want to relinquish its role as owner, and also not its exclusive indirect control, how can there be separation of government and management? If the ultimate model is to be "the state guides the market and the market guides the enterprise," then the property rights relation between government and the enterprises must be clarified. The participants at the meeting agreed that under the present conditions in China the privatization of 1 trillion yuan of state assets is unrealistic and not desirable, while the developmental trend in the capitalist developed countries of having legal persons as shareholders (in Japan last year they accounted for 80 percent of all stock companies) presents a possible idea for China's reform of the ownership system.

Rejection of Administrative Measures for Improving Enterprises Criticized 40060604

[Editorial Report] The 24 Apr 89 edition of Shanghai SHIJIE JINGJI DAOBAO in Chinese carries an article on p 11 refuting an argument made in the 5 Dec 88 edition that "if productive forces are used as a standard to evaluate enterprise performance, then state and government evaluations are not necessary." Author Guo Shancun, director of Shanghai's Yongsheng Fountain Pen Factory, argues that the above view is biased since it fails to take into account China's national circumstances.

Guo says that administrative measures are as effective as productive forces in improving enterprise performance and can also promote development. He does not deny that productive forces could be one standard for enterprise evaluation, but points out that how to measure productive forces is not fully understood and is still being debated in theoretical circles. In contrast, he notes that administrative measures aimed at improving economic performance, quality, and reducing waste have concrete means of evaluation. He argues that these measures currently are more practical and effective than relying solely on productive forces.

Speaking from his own factory's experience, Guo says that using administrative measures to set improved performance targets have the following four advantages. First, with clear goals set for the desired level of technology, enterprises are given a stimulus to catch up with and overtake advanced international standards. Second, by setting rational standards for measurement, enterprises can raise the overall level of their managerial skills. If methods used for measuring enterprise performance are comprehensive enough, statistical errors can be avoided. This will force enterprises to realize that improvement is only possible through increased effort. Third, by setting standards that require increased emphasis on employee training programs and improving foundations for building spiritual civilization, an improvement in the quality of personnel will result. Finally, enterprises will get increased recognition. If the state publicly acknowledges

enterprises that have managed to "make the grade," not only will these enterprises' status improve but consumers' confidence in them will increase as well. In sum, administrative measures can be used to increase enterprise vitality and to close the gap between Chinese enterprises and advanced enterprises worldwide.

PROVINCIAL

Shanghai Issues Budget Report

OW1905122689 Shanghai JIEFANG RIBAO
in Chinese 27 Apr 89 p 2

["Excerpts" of report by Zhuang Xiaotian, vice major of Shanghai, on the final account of the Shanghai municipal budget for 1988 and the budget for 1989]

[Text] I. On the Final Account of the Municipal Budget for 1988

The year 1988 was the first year when Shanghai started the system of taking full responsibility for its own finances. Because of intense efforts made by the people of the whole municipality, the situation in implementing the municipal budget for 1988 was relatively good. The total local revenue was 15,337 million yuan, overfulfilling the budgeted revenue and thus accomplishing the contracted task of turning 10.5 billion yuan to the central authorities. The total amount of expenditures was 6,589 million yuan, which basically insured the construction of key projects and development of various work. Shanghai achieved success in balancing budgetary revenues and expenditures with a slight surplus.

The main revenues in 1988 were as follows:

The total industrial and commercial taxes collected were 12,551 million yuan or 107.3 percent of the budgeted income from taxes, increasing by 10.9 percent over that of the previous year.

The income tax collected from state enterprises, regulatory business tax collected from state enterprises, profits collected from state enterprises, and stores returned by state enterprises totalled 3,883 million, decreasing by 28.5 percent as compared with 1987.

Subsidies for state enterprises for their losses incurred were 1.48 billion yuan or 130 percent of the budget, increasing by 894 million yuan over 1987.

The main expenditures in 1988 after readjusting the budget were as follows:

The total amount of appropriation for various "concerns" was 1.4 billion yuan or 100 percent of the budget. In 1988, the money was used as "revolving fund for various units under separate management based on a system of compensatory payments for the use of the money, which increased the amount of the fund." The fund promoted production and construction in the

municipality and played a certain role in solving difficulties of shortage of capital.

The expenditures for capital construction and renovation projects were 952 million yuan or 96.9 percent of the budget, decreasing by 44 percent as compared with those in 1987.

The expenditures for supporting rural construction and production were 210 million yuan or 105.7 percent of the budget. Of that, 54 million yuan were used for afforestation, water conservancy and other improvement projects and 155 million yuan were used for promoting rural production.

The expenditures for education, cultural, and public health work were 1,324 million yuan or 105.3 percent of the budget.

1. The expenditures for education were 802 million yuan or 105.5 percent of the budget, increasing by 21.3 percent over 1987. The educational outlay for each student also increased. The educational outlay for each college student was 2,807 yuan, for each middle school student was 486 yuan, and for each primary school student was 248 yuan, increasing by 2.4 percent, 27.2 percent, and 19.8 percent respectively over those in 1987. In 1988, the total expenditures for primary and secondary education were 653 million yuan, increasing by 130 million yuan over 1987, and the total expenditures for higher education were 149 million yuan, increasing by 12 million yuan over 1987.

2. The expenditures for public health were 376 million yuan (including traditional chinese medicine, family planning, and free medical care) or 106.3 percent of the budget, increasing by 71 million yuan over 1987.

The expenditures for science and technology were 151 million yuan or 97.7 percent of the budget.

The administrative expenditures were 165 million yuan or 100.9 percent of the budget.

The expenditures for subsidizing commodity prices were 1,184 million yuan or 97 percent of the budget.

In the past year, we made certain achievements under the leadership of the higher level and with the efforts of various fronts. However, there were also many problems. The main problems included Shanghai's relatively weak foundation of budgetary income, the existence of deficits of some municipal level units, poor economic result of some enterprises, some loopholes in management, lacking a sound management system in collecting taxes from individual business operators, and the relatively popular practice of evading taxes. Regarding those problems, we will strive to make improvements in the new year to make greater contributions to revitalizing Shanghai's economy.

II. On the 1989 Budget

The municipality's 1989 budget is drawn up based on the following principles: In revenue, we seek to increase financial revenue by strengthening reform, improving the contract system, and encouraging enterprises to raise their economic effectiveness through better management and technical renovation; in spending, we want to tighten finance, brace ourselves for the frugal years to come, keep spending within the limits of income, maintain a special fund for revitalizing Shanghai, adequately increase agricultural, educational, scientific, and technological spending, and greatly scale down capital construction, group purchase power, and administrative spending; by enhancing a comprehensive balancing and financial budgetary management, we want to achieve a basic balance between financial revenue and expenditures.

Our 1989 financial budgetary revenue is: Total revenue for the year is set at 16.97 billion yuan, of which 15.4 billion yuan is local budgetary revenue; total spending for the year is 16.97 billion yuan, of which 6.222 billion yuan is local budgetary spending and 10.5 billion yuan is the fixed amount to be turned over to the central government. The year's budget is balanced with revenue equaling to spending.

Our 1989 budgetary expenditure is allotted as follows:

- 1) Maintains a 1.4 billion yuan special fund for the purpose of revitalizing Shanghai.
- 2) Sets aside an urban maintenance and construction fund to finance key civil engineering projects. An amount of 548 million yuan is allocated for urban maintenance and construction. As the amount falls short of the real needs, we will have to borrow money and raise funds to get another 900 million yuan to finance key civil engineering projects.
- 3) Increases aid-agriculture spending to promote agricultural production. This year 236 million yuan is earmarked for promoting rural production and agricultural undertakings, up 12.6 percent from 1988.
- 4) Supports intelligent investment and the development of spiritual civilization and gives priority to developing educational undertakings. For 1989, 1.433 billion yuan is allotted for cultural, educational, and health spending, an increase of over 100 million yuan, or 8.2 percent, from 1988.

During the period from 1979 to 1988 when the municipality's financial revenue decreased, its educational spending increased at an annual rate of 15.5 percent. In 1989, in line with the policy of "two increases," the municipality appropriates 890 million yuan for educational spending, up 88 million yuan, or 11 percent, from the previous year (exclusive of capital construction projects, other departments' spending for education, and

wage increases as ordered by the state for this year). Of the allotment, 727 million yuan is earmarked for general education, up 11.3 percent from 1988, and 163 million yuan for higher education, up 9.8 percent from 1988, to raise the average spending per student in local higher learning institutes.

For health undertakings (including public-financed medical care, Chinese medical undertakings, and family planning), 391 million yuan is allotted, up 4.1 percent from the year before.

For cultural, sports, and radio and television undertakings, 131 million yuan is set apart, up 4.0 percent from 1988.

5) Appropriates 112 million yuan for local scientific undertakings, up 5 percent from 1988.

6) Cuts down administrative spending. Administrative spending for 1988 [as published] is set at 159 million yuan, a decrease of 6.5 million yuan from 1988 (this includes an increase of 3.5 million yuan in publications subsidies, so, in reality, it is a cut of 10 million yuan from 1988).

III. Strive To Fulfill the Budget Plan for 1989

To ensure a balance between financial revenue and expenditure, it is necessary to do well in the following tasks:

1. Strengthen the "double increase, double economy" movement, improve effective supply, and raise economic results. The main points are increasing the output of industrial consumer goods, nonstaple foodstuffs, and durable consumer items that have a ready market; increasing the output of chemical, metallurgical, and other raw and processed materials which are in short supply in Shanghai; increasing the output of export items as well as products that pay high taxes and make high profits but are urgently needed on the market; and requiring the commercial enterprises to make more commodities available, straighten out their inventory, improve management, expand circulation, and increase revenue. The various enterprises should direct their attention to strengthening economic accounting; improve their personal post responsibility system, management, and economic results; raise more capital, increase income, continuously improve the quality of their products, and cut down material consumption and costs. At the same time, they must also tighten control over losses and subsidies.

2. Strengthen the reform and further perfect the enterprise contract management responsibility system as well as the financial responsibility system. Enterprises whose management rights have already been contracted out should distribute the contracted workload and tasks among the various departments, workshops, shifts, and individuals; improve the accounting and rating system;

strengthen "double increase, double economy" movement; and sort out tax reductions and exemptions. It is necessary to comply with stipulations and guidelines contained in documents issued by the State Council, cut down consumption funds, and perfect and implement measures tying the total wage payment to economic results.

The current district and county finance system was established under the condition that Shanghai has been authorized by the central authorities to be responsible for its own finance. Thus, as long as the central authorities allow Shanghai to maintain its current finance system, there is no need to change the current district and county finance system. However, in 1989 the various districts and counties still must vigorously increase revenue, work out sound expenditure plans, and actively support science, education, cultural, and public health programs as well as urban maintenance and construction.

3. Rectify the tax collection system and strictly abide by tax collection laws. Governments at all levels must earnestly implement the tax laws and further sort out various regulation governing tax reductions and exemptions. All practices of unauthorized approval of tax reductions or exemptions must stop. All units or individuals enjoying unauthorized tax reductions or exemptions should be asked to pay up according to the law. Tax departments at all levels must sum up their experience in general inspections of tax, finance, and commodity prices accumulated over the years; analyze the major causes of tax evasion, and take effective measures to plug the loopholes. It is necessary to conduct regular tax inspections. It is particularly important to strengthen tax and management inspections of private industrial and commercial enterprises and improve the current tax collection and management system. It is necessary to do a good job in collecting new taxes.

4. Control administrative and management expenses and cut down institutional purchasing power.

It is necessary to maintain and develop the fine traditions of thrift and hard work, always be honest in performing official duties, and continue to strictly control funds and expenses. All departments must continue practicing economy by cutting down expenses, and particularly meeting expenses, TDY [temporary duty] per diem, purchasing expenses, and funds for personnel hired outside the staff still need to be reduced to fulfill the task of saving 10 million yuan in administrative and management expenses in 1989. It is also necessary to strengthen the management of fee collection for administrative institutions and the management of income distribution for the tertiary industry run by them.

It is necessary to continue curtailing institutional purchasing power. In 1988, institutional consumption reached 1,151 million yuan, down 20.12 percent compared with 1987 (same caliber). In 1989 it is necessary to cut down another 20 percent compared with 1988. It is

necessary to guarantee ample supply of commodities under special control at fixed places in accordance with the state regulations.

5. Strengthen budget management, and strictly follow financial and economic discipline. After the budget for 1989 is reaffirmed, leaders at all levels must support or help departments of finance and financial affairs to strictly control the budget, stop setting precedents for reducing revenues or increasing expenditures, and also stop unjustifiably allocating financial and other quotas to enterprises. All revenues must be delivered in full to the state in good time, and no department or unit shall be permitted to retain, hold, or embezzle them for any purpose. It is necessary to strictly observe financial and economic discipline, forbid using public funds to entertain guests, send presents, or go sightseeing. It is not permitted to issue excessive bonuses, allowances, or subsidies in kind.

SHIJIE JINGJI DAOBAO Analyzes Shanghai's Economic Situation

40060508 Shanghai SHIJIE JINGJI DAOBAO in Chinese 17 Apr 89 p 13

[Article by reporter Shu Hanfeng 5289 3352 6912: "Let Us Hope That Shanghai's Decline Will End"]

[Text] *Shanghai has deteriorated into a chaotic, overpopulated, environmentally dilapidated city, a giant with clay feet. The erroneous idea of "taking without nurturing, giving many responsibilities but few privileges" has led to conservative behavior and eagerness for quick success and instant profit. Shanghai's decline has to do with a basic point of departure of the state's policy: Should it allow some well-developed regions to use their own accumulations to expand production to give impetus to the rest of the nation, or should it rely on egalitarianism and divide the resources equally among all regions? As a result of this, the key points have suffered tremendous losses. Long-term and overall considerations do not permit Shanghai's decline to continue. It is urgent that we change the old concepts. Expanding Shanghai's economic rights and privileges and creating fair and competitive conditions are the premises for revitalizing Shanghai.*

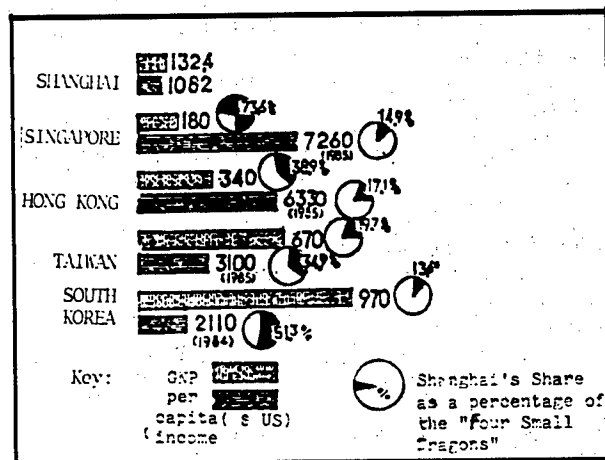
Shanghai is on the decline at last.

In the cycle of endless debates over the function and position of this municipality and repeated formulation of many strategic programs, plans, and designs and the inevitable waiting which follows, the people, especially the people of Shanghai, would wait impatiently for 3 years, 5 years, and as soon as there is a glimpse of hope, disappointment always follows. Shanghai is on the decline at last.

This legendary First City of the Far East of by-gone days, known for its blending of Eastern and Western cultures and its overflowing wealth, this birthplace of revolution

which brought the first glimmer of the glory of Marxism to China, this economic center which once dominated the rest of China with its incomparable scope and strength, is rendered "a giant with clay feet." Today, the city is in chaos; there is serious air and water pollution; it is severely overpopulated; traffic is congested, communications are blocked, municipal facilities are grossly inadequate, and the ecology is steadily deteriorating. As its leading economic indicators continue to decline relative to the nation's, its per capita GNP has tumbled to only 17 percent of Hong Kong's and about 15 percent of Singapore's (at the exchange rate of 3.7 yuan to \$ 1.) In the 40 years of repeated up swings and down swings, and as time goes by, we can say without exaggeration that, because of the pressure relative to its capacity and systematic capabilities, this once celebrated international city, Shanghai, is on the verge of breaking down.

Economic Comparison Between Shanghai and the Four Small Dragons



All 1986 data except otherwise noted at exchange rate of 3.7 RMB = \$1

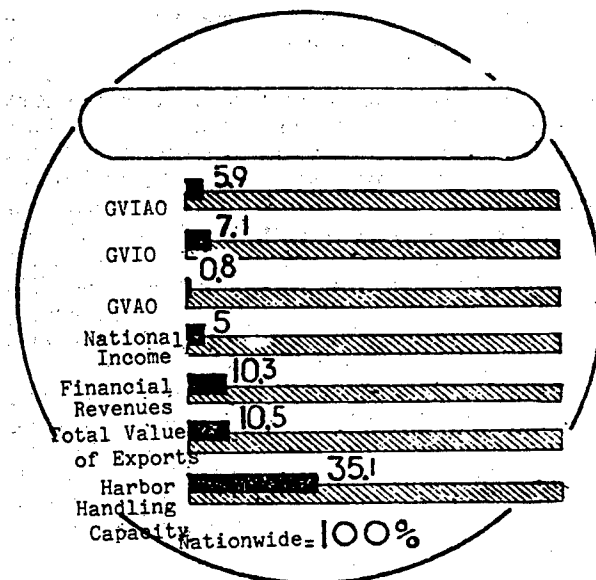
Shanghai's total financial income for the last 39 years is in excess of 450 billion yuan, ranking 16th nationwide. It has turned over around 395 billion yuan to the state, 173 billion yuan of which was delivered in the 10 years since 1979. This is comparable to delivering almost five of Shanghai's existing industrial bases.

What has Shanghai gained in return? Even if we overlook the fact that none of the 156 key projects under the First 5-Year Plan was set up in Shanghai, between 1950 and 1984, of the more than 700 billion yuan's worth of investments nationwide, Shanghai only received 20 billion yuan or so. During this period, Shanghai's economy, especially the growth of its industrial production, has depended primarily on "tapping potential" for survival. The direct result of this is the accelerated rate of aging of its industrial facilities, the increasing backwardness of its technology, and the serious lack of staying power.

More serious, and in fact the main problem holding back Shanghai's development, is the dilapidated state and the

inadequacy of its urban infrastructure. During the decade-long cultural revolution, Shanghai's urban construction funds was only 7.23 percent of the whole municipality's already grossly inadequate basic construction investments. In five of those years, not one square meter of residential housing was funded by the local government. More tragic is the state of municipal projects which directly affect the people's livelihood and the city's operations: in the 10 years, only 20 million yuan was made available; that equalled to only 0.23 percent of Shanghai's basic construction investment, but meanwhile, as much as 100 million yuan was diverted to the "special urban preservation fund."

Shanghai's Leading Economic Indicators as a Percentage of the National Figures



1987 Data. National Figures Include Taiwan

If these are "historic" consequences, people may understand and accept it from the point of the nation's situation as a whole. But, a clear fact over the last 10 years is, as many localities have begun to launch massive construction and spent millions to improve their appearance and promote rapid economic development, Shanghai which so far is still the nation's most productive (overall) city has not begun to give herself a facelift; on the contrary, it is aging even faster.

To explain this situation with "heavy debts" and "limited financial resources" is not very convincing any more. We need to find truth from facts and find the starting point to our ideologies and policies.

We can say that Shanghai which lacks natural endowment was led into the present straitened situation step by step. This situation has not improved in decades because there indeed are some "errors" in cognition. For example,

Shanghai has always been treated as "the goose that lays the golden eggs." It matters not what it is fed, it matters

not if it is seriously sick, it always lays its eggs, diligently and conscientiously. For decades, Shanghai's primary duty has been to lay more eggs, better eggs, to finance the state. Everything else centers around this.

"Start projects in Shanghai and give it more production tasks—it saves money, produces quick results, and generates huge return." As a result, like piling snow on frost, the ailing municipal facilities are inflicted with new diseases before the old sickness is cured. There is no more potential to be tapped, and she cannot go on any more. And so, production squeezes out assistance, assistance squeezes out warehouse, and warehouse squeezes onto the street. Year after year, things just get worse and worse.

"Shanghai should yield to the opening up of its fellow provinces and cities." As some regions become more and more open, as policies grant "special favors to the already favored," Shanghai, once the largest, the most open economic center, has to step aside and wait, and opportunities pass it by as it waits.

"Shanghai will not be the first in the world"; do no "evil" and think no "evil"; be conservative in thinking and slow in action, and always toe the line—these have earned Shanghai the good name, "law-abiding household." Yet, on the other hand, when it comes to reducing basic construction, reducing credit loans, and increasing revenues and reducing expenditure, Shanghai is always "first in the world." Consequently, some municipal projects which could have improved Shanghai were killed as soon as they were started.

These "errors" in ideological cognition can be summed up as "taking without nurturing; many obligations, few privileges." With this as the starting point, the policies toward Shanghai inevitably are conservative and tend to seek immediate success and instant benefits. Most can be called "short-term behavior."

When the central government decided to raise the local profit retention percentage and increase the financial autonomy of local governments as a way to promote the development of localities with better economic performance, it looked as if Shanghai might get a breathing spell and a chance to make adjustments. But a few days later, like the "Incantation of the Golden Hoop," the imposition of the "adjustment tax" overnight took away all the benefits generated by enterprises with its "egalitarianism and transfer of resources." The most seriously affected no doubt was Shanghai.

As some localities open up to the outside world, as they launch their projects, aided by special policies and "kitchenette" investments, all programs pertaining to Shanghai's opening up, like its "free port" status and "Class II Special Zone," either failed to garner support or were shelved and forgotten. Even the Minxing Development Zone, the only one of its kind at that time, was an on again off again project and had a tough time getting off the ground.

Large-scale, wholesale leasing of land to foreign businesses as a way to secure urban construction funds was a concept conceived first by Shanghai. Yet today, only a couple token pieces of land are so leased in Shanghai as an experiment while other provinces and cities have widely promoted wholesale land leases.

Comparison of Traffic Situation Between Shanghai and Several Domestic and Foreign Cities

| | Shanghai | Beijing | Tokyo | London | Moscow |
|--|----------|---------|--------|--------|--------|
| Urban Population (in 10,000) | 610 | 543 | 838.5 | 275 | 725 |
| Urban Area (sq. km) | 149 | 300 | 589.5 | 321 | 555 |
| Total Length of Roads (km) | 987 | 2,334 | 10,900 | 12,800 | 3,500 |
| Per Capita Road Surface (sq. km/person) | 2.1 | 4.1 | 9.7 | 26.3 | 7.2 |
| Car Carrying Capacity per Km of Road Surface (equivalent car/km) | 506.6 | 257 | 280 | 176 | 286 |

Source: 1985 Special Edition of "Urban Economic Research"

Shanghai was one of the country's first to implement the shareholding system, and implemented it on a fairly large scale. The citizens are adapting to security exchanges and can afford it fairly well. The shareholding system indeed has been an effective way for Shanghai's enterprises to convert to a new operating mechanism, absorb social funds, improve enterprises performance, and enhance the vitality of the municipality's economy. But, for various reasons, the system has not been promoted broadly and quickly, and as a result, after several decades of "malnutrition" and "tapping potential," Shanghai's enterprises are forced to accept a high contract base while in fact, like an arrow at the end of its flight, most of them are a spent force.

Although fairness has been an important criterion in the market mechanism we have advocated for the last 10 years, to have to compete under these circumstances can hardly be called fair. Shanghai is wounded and tired, heavily burdened with the state's finances, bound by existing conventions, and hampered by protectionism practiced by some producers of raw and processed materials.

The outcome of this race has been decided even before it began.

An expert in Shanghai's economy pointed out that what Shanghai went through in the last 40 years which brought

it to its present decline had everything to do with the basic starting point in the state's policy—should the state let those regions with strong economic foundation and good economic performance use their own accumulations to expand reproduction and have priority to develop first and then give impetus to the development of other regions, or should the state take administrative measures to distribute evenly the accumulations of some regions among all regions and artificially install industry-oriented developmental projects in every region, including the poverty-stricken regions, regardless of condition?

Facts prove that the latter starting point may be based on good intentions, but the results are not very desirable. At one time, we ignored cost and invested hundreds of millions on the best equipment and the finest people to establish the "three main lines" and other projects, but today, they generate little benefit; some have even become a burden.

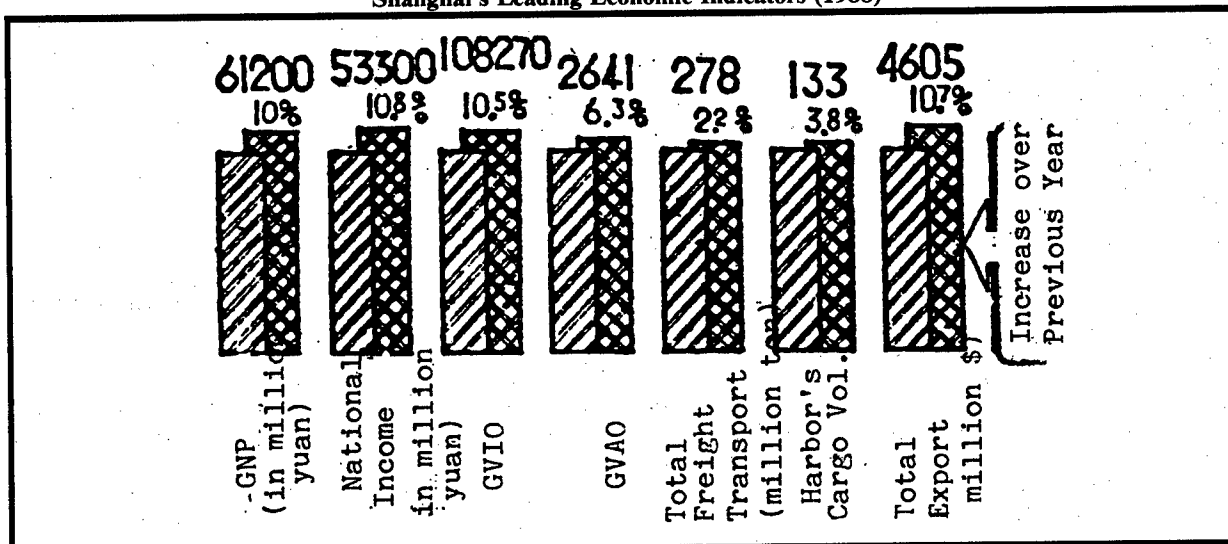
Over the last 10 years, the defects of uneven development caused by this kind of man-made, unbalanced policy can be seen in at least two areas: One, high output value but little real benefits. Driven by the idea that maximizing output value is a glorious endeavor, large amounts of low efficiency consumption have led to serious shortages of energy resources and transportation, and the state's financial income has diminished as a result. Two, to sustain inefficient production, regional protectionism which is contrary to the spirit of free circulation of resources is in vogue again. Not only are large quantities of scarce raw and processed materials being used on backward productions which are wasteful and ineffective but the finished products are overstocked and unsold. On the other hand, Shanghai and other technically more advanced regions have no material to work with. In this situation, nobody wins, and the state suffers huge losses.

Despite this kind of internal and external condition, Shanghai's reform, opening up, and economic constructions have been very successful. In 1988, its GNP was 61.2 billion yuan, a 10 percent increase over the previous year based on constant prices; the national income was 53.3 billion yuan, 10.8 percent higher than the year before; foreign export was worth \$4.605 billion, 10.7 percent more than the year before; it successfully fulfilled its twin (financial and foreign trade) contract responsibilities with the state. At the same time, construction of the development zone and efforts to attract foreign investments, two tasks which have attracted the attention of people here and abroad, have also been highly successful. Its success rate of 98 percent, the fact that more than 60 percent of the projects are industrial projects, and its 3-year accumulation of \$125.33 million in foreign exchange surplus have made Shanghai the most successful city in the nation in developing foreign invested enterprises in 1988. Shanghai's development zone, because of its high overall standards, has attracted the nation's highest percentage of overseas advanced technologies and investments by well-known multinational corporations and is generally recognized as "first rate in this country."

Facts prove that Shanghai's position and function in China's economy is irreplaceable. Its profit tax revenue per hundred yuan of funds is as high as 60 percent and more, twice the rate of most large cities. Its cumulative foreign export is more than one-fifth of the nation's total; the 133 million tons of freight loaded and unloaded in its harbor make up more than one-third of the cargo volume of the nation's main coastal ports, and 50 percent of the freight is in transit to and from the rest of the nation.

From the point of view of Shanghai's tenacious economic vitality, it should not be on the decline. From the

Shanghai's Leading Economic Indicators (1988)



From 28 Feb 1989 "Shanghai Municipality Statistics Bureau Bulletin"

point of view of the benefits of the nation as a whole, we should not let Shanghai decline.

Expanding Shanghai's local economic rights and privileges and creating fair competitive conditions at the macroeconomic level are two necessary prerequisites for revitalizing Shanghai. Experts have suggested that to expand Shanghai's economic rights and privileges, the important things are: 1. Expand Shanghai's financial power. Today, the financial retention percentage is far from being able to satisfy the needs for transforming Shanghai's shrinking economy into a vigorous economy. We should gradually change to a 50-50 retention ratio between the state and Shanghai. Funds needed by Shanghai's enterprises for expanded reproduction should be taken care of by Shanghai itself. The classified taxation system should also follow the same principle. 2. Expand Shanghai's production rights. Except for the overall planning and production of a few key products which should be under the central government's mandatory plans, other aspects like industrial structure and product mix, importation of foreign funds, and enterprise transformations should be decided by Shanghai independently. 3. We should expand Shanghai's circulation rights and promptly change the incongruent situation where the transfer out of products and their prices are according to plans while the transfer in of raw materials and their prices are according to the market. 4. Expand Shanghai's allocation rights.

At the junction of the west shore of the Pacific ocean and the great Chang Jiang, Shanghai, a highly open and modern city, indeed has inestimable impact on China's future, and to China, Shanghai's decline is a tragedy, not a comedy.

Let us hope that Shanghai will decline no more. Let us hope that we can do something today.

FINANCE, BANKING

Money Supply System, Basic Problems

40060539 Shanghai SHIJIE JINGJI DAOBAO in Chinese 17 Apr 89 p 11

[Article in Finance and Banking column by Hu Haiou 5170 3189 7743 and Ma Jun 7456 7486: "First in a Series of Articles Probing the 10-Year-Old Reform of the Financial System—China Has Overlooked the Control of the Money Supply"]

[Text] *Since the implementation of reform of China's banking system, a new system which consists of the central bank and many specialized banks has been installed, and a credit system allowing the banks to extend more loans only if they have more deposits and which sets a reserve requirement has also been implemented. But China has not changed the basic mold of control through credit and cash planning. As a result, two overlapping financial systems are in operation at the same time, and so China's currency now embodies the characteristics of a*

product economy as well as the flavor of a commodity economy. Specifically, the multiplier effect of deposits and ready money only works to magnify the increase in the money supply but cannot likewise reduce it. This is very clear in the way the banks extend credit. We suggest that the solution to the problem is to utilize "high-energy" money to control the credit scale, perfect the reserve requirement system, and accelerate the financial legislative process.

Over the last 10 years, financial reform in China has made phenomenal progress in many areas, but because reform has basically focused on the perfection of the financial institutions and the implementation of a complete set of macroeconomic control measures, it has ignored the "genetics" of these two elements—the control of the money supply, and as a result, the financial institutions are increasingly alienated from the control measures. This article tries to demonstrate, from a technical point of view, what is wrong with China's monetary system and proposes some remedies.

What Is Wrong With the Monetary System

The failure to separate "high-energy" money from ordinary money is the culprit behind many of China's monetary problems. To explain this, we should compare our system with the Western monetary system:

In the West, money is generally separated into "high-energy" money and ordinary money. The former is made up of ready money issued by the central bank and deposits in the central bank; the latter is made up of various types of certificates of deposit issued by the specialized banks. An increase or decrease in cash and central bank deposits has a multiplier effect on increasing or decreasing the amount of money in circulation, and therefore they are called "high-energy" money. Certificates of deposit issued by specialized banks are only representations of the former kinds of money and do not have the same effect. This is the difference and the characteristic distinction between the two.

China's theorists are beginning to accept these Western definitions and are regarding cash and central bank deposits as "high-energy" money and the certificates of deposit of the specialized banks are ordinary money, but meanwhile, in theory and in practice, they have also made ready money (including central bank deposits) and certificates of deposit interchangeable, and thus the two once again have lost their clear distinction and are sharing the same characteristics: Deposits have the same multiplier effect as "high-energy" money to increase the money supply, and cash meanwhile has lost its multiplier effect in reducing the money supply.

It is because this Western-style Chinese monetary theory has failed to make that slight difference between "high-energy" money and ordinary money that China's Western-style financial institutions and their control measures have gone off the mark.

Why the Monetary System Is in Trouble

The mechanism which caused the trouble in China's monetary system is hidden within China's banking system and its control measures. To discuss the issue, we have to trace our way back to the early, traditional pattern of behavior of banks.

In the early days, besides attracting the public's deposits in cash, banks could also issue checks, and that became the specialized banks' certificates of deposit. As deposits and withdrawals became more frequent, smart bankers came to realize that they needed only a small portion of the cash to satisfy the needs of the people who were cashing the checks. So the bankers began to increase the amount of certificates of deposit to several times the cash on hand. This process already demonstrates the multiplier effect of cash in increasing the amount of certificates of deposit. A better manifestation and proof that certificates of deposit are not "high-energy" money is clearly demonstrated in the interbank transactions.

If the certificate of deposit of one bank is in the hands of another bank, the latter will not increase its loan funds immediately, because although that certificate of deposit represents money in cash, increasing the loan funds will necessarily increase the demand for cash, and if that bank substitutes the certificate of deposit of another bank for cash to pay its customers, it will affect its own reputation. So, the bank must first exchange that certificate of deposit for cash before increasing its loan funds. Meanwhile, the bank which is redeeming the certificate in cash will find that its cash-to-deposit ratio has fallen below the safety mark, and the demand for cash from its customers could exceed its cash reserve. For its own safety, it will withdraw a substantial amount of its loan funds to restore the deposit-cash ratio to the safe level. This kind of interbank transaction demonstrates that if the bank gets more cash, it can issue many more certificates of deposit; and conversely, if the bank has less cash, it must likewise reduce the certificates of deposit. Certificates of deposit, on the other hand, do not have the same effect. Only cash is a "high-energy" money.

This difference between "high-energy" money and ordinary money is inherited by the reserve requirement system in modern banking; however, most cash has been replaced by ready money issued by the central bank and deposits in the central bank. The proportion of cash and central bank deposits as a percentage of total bank deposits, that is, how many times bank deposits may exceed the amount of cash and deposits in the central bank, is fixed by decree, and so the strict differentiation and the interrelationship between "high-energy" money and ordinary money are maintained.

Since reform of the banking system, China has established a financial system whereby a central bank and many specialized banks are operating side by side and has set up a credit system under which the banks may lend more money only if they have received more

deposits, and we have also installed a reserve requirement system. But the basic pattern of control through credit and cash planning has not changed. And so two financial systems are operating at the same time; they overlap each other, and money now embodies the characteristics of a product economy as well as the flavor of a commodity economy. Specifically, China's deposits and cash can expand to many times their original size but cannot shrink to a fraction of their original size. This feature is demonstrated by the way the banks lend out money.

Since more deposits mean more loans, the specialized banks' loans can exceed the credit quota, and this naturally will create many derivative deposits. This is because as long as the loan funds remain within a bank or are returned to that bank, they can be lent out again, and this process will continue to increase the balance of the bank's deposits. Moreover, because China's reserve requirement system is based on the system of control through credit planning, the equal value of cash and deposits becomes a precondition, and since the reserve funds are in fact made up of deposits, a huge number of derivative deposits can be created. Briefly, the process is as follows:

Two purchasing enterprises opened accounts at the same specialized bank. That bank also lends money to the purchasing enterprises, and the money is put back into the bank as deposits. When the specialized bank makes a loan, it puts away a certain percentage as reserve fund. Assume that this process repeats itself many times (this is something rare in reality but logical in theory,) and by the time all of the primary deposit has been turned into reserve funds, the balance of the deposits will have been expanded to many times the size of the primary deposit. If at this time the bank enters into an interbank transaction, no matter if the purchasing enterprises should make a cash withdrawal and deposit the money into another bank or transfer and settle the account, the first bank will lose that sum of money and will need no further adjustments; the second bank will gain a deposit, and to make money, it will repeat the first bank's derivative process, and so the total deposit in the banking system is derived from the derivative deposits of the first bank.

In this process, we can see that the bank that gets more deposits or cash can create many times more deposits, but the bank that loses some cash or deposits need not cut back drastically. Thus, cash which is theoretically recognized as "high-energy" money does not have the multiplier effect of "high-energy" money when it comes to reducing the money supply, while deposits which are not theoretically recognized as a "high-energy" money in fact have the multiplier effect to increase the money supply, and this is where China's monetary system has gone wrong.

The Trouble Spreads

Banks are enterprises in the money business. Financial macroeconomic control measures are the tools that regulate the banks' credit behavior, and money itself is the

"gene," and if there is something wrong with the monetary system, it will affect both the banks and the regulatory measures.

In the West, the volume of transaction among commercial banks will not exceed the money supply, because interbank transactions ultimately lead to the transfer of "high-energy" money, and the substantial increase of one bank's certificates of deposit necessarily means the substantial decrease in the certificates of deposit of another bank. In China, however, transactions between specialized banks can only increase the total money supply, because whether the interbank transaction is in the form of account transfer and settlement or cash payment, it can only magnify the increase of deposits in one bank without significantly reducing the deposits of another bank.

In the West, the commercial banks' credits will not exceed the supply of ready money, because the issuance of currency is determined by the central bank itself; the specialized banks can create deposits only out of the cash on hand but cannot convert all of their deposits into cash. In China, the credit behavior of the specialized banks can only exceed the money supply, because although ready money cannot be circulated without the central government's order, if a customer who holds a certificate of deposit issued by a specialized bank demands cash payment, the bank must honor that demand.

In the West, the central bank can strictly control the supply of "high-energy" money, because their "high-energy" money is the central bank's debt instrument; their issuance is not affected by the commercial banks' credit behavior. China's central bank cannot control the supply of "high-energy" money, because the money used by the central bank to intervene in the economy is the reserve fund which comes from the specialized banks, and a large percentage of that reserve fund is created by the specialized banks' credit behavior, and the bigger the specialized banks' credit volume, the bigger the reserve fund and the more able the central bank is to intervene in the economy, and vice versa. This demonstrates that the central bank's ability to intervene in the economy and the way it intervenes are constrained by the specialized banks' credit scale.

In the West, the central bank's adjustment of the rate of reserve requirement regulates the money supply directly, because lowering the reserve requirement rate means the specialized banks can create many times more deposits, and vice versa. In China, adjustment of the reserve requirement by the central bank can only affect the speed with which the specialized banks are creating more deposits but not necessarily the magnitude, because raising the reserve requirement implies that the specialized banks have to turn over more deposits to the central bank, but it is only a matter of time before they will make up the amount they have lost to the higher reserve requirement.

In the West, the multiplier effect of the "high-energy" money put into the market by the central bank reaches the limit as it approaches the reciprocal of the rate of reserve requirement, but in China, the money put into the specialized bank system by the central bank can be likened to a push by God himself, because from then on, the deposit created by that money becomes the basis of the creation of many other deposits.

The above clearly demonstrates that as long as the ills of the monetary system are not cured, no matter how many advanced Western-style organizations and control measures we try to introduce into this country, they will always "look similar but in fact be different." If we do not focus on the monetary system itself, the accomplishments of 10 years of financial reform will be for nothing, and the revival of the old system may be inevitable, and inflation and cyclical indiscriminate measures may be unavoidable.

Measures for Putting the Monetary System in Order

The cause of the trouble in China's monetary system is buried within China's banking system and the control measures, and the only remedy is to clearly separate "high-energy" money from ordinary money and to adjust and reform China's banking system and control measures.

1. Abandon credit planning and use "high-energy" money to control the credit volume. Control through credit planning breaks the link between China's banks and traditional banks. Only by abandoning this kind of planning can China's banks achieve normal development. This means the central government should formulate a "high-energy" money, that is, cash and central bank deposits, supply plan to replace credit planning and replace the allocation of a credit quota with the redistribution, with compensation, of the specialized banks' deposits in the central bank. A specialized bank may obtain cash only if it has money in the central bank and vice versa.

2. Perfect the reserve requirement system and permit only the central bank's debt instruments to serve as reserve fund in order to prevent the specialized banks from creating their own "high-energy" money and ensure that the deposits absorbed by the central bank are money it itself has created. If the specialized banks can create deposits only with the central bank's money, interbank transactions ultimately will be in the form of transfer of "high-energy" money, and their credit behavior will not become a factor determining the money supply.

3. Accelerate the pace of financial legislation. Besides formulating laws to stipulate the supply of high-energy money and regulate the reserve requirement, there should be laws regulating bank bankruptcies. A bankruptcy provision can guarantee the implementation of

the reserve requirement system and the differentiation between "high-energy" money and ordinary money.

A Glossary of Terms

"High-energy" money refers to cash in circulation and commercial banks' deposits in the central bank. Also known as a monetary base or high-powered money. When that money enters the banking system, it triggers a series of activities to create credit, magnifying the amount of money in circulation; conversely, it can also lead to a series of credit contractions, magnifying the reduction of money supply.

Ordinary money is money which, in contrast to the high-powered money issued by the central bank, cannot magnify the increase or decrease of money in circulation is aptly called ordinary money. It includes various kinds of certificate issued to the depositors by commercial banks as they create deposits. Because these certificates actually serve the same purpose as money in circulation, they can be looked at as having the same value as money.

Derivative deposit refers to the commercial banks' loan activity or purchase of negotiable securities with the money left over from a primary deposit after meeting the reserve requirement. When this process repeats over and over again, the commercial banks' deposits will grow to many times the size of the primary deposit; the additional deposits are called derivative deposits. Primary deposit refers to the money created by the central bank (meaning cash and central bank deposits,) and derivative deposit refers to money created by the commercial banks. In the books of the commercial banks, no distinction is made between primary and derivative deposits; however, while cash can be converted into deposits, only the portion of deposits that equals the amount of cash in stock can be converted into cash. Derivative deposits can be circulated as cash, but they cannot be converted into cash.

INDUSTRY

Inner Mongolia Industrial Achievements
SK2905132089 Hohhot NEIMENGGU RIBAO
in Chinese 2 Apr 89 p 1

[Text] During the 10-year period of reforms, our region's industry has been upgraded to a new level.

Industrial production has achieved steady and stable development and its actual strength has been markedly enhanced. In 1988 the region's total industrial output value (calculated in line with 1980 prices) reached 13.77 billion yuan, a 1.5-fold increase over 1978. The yearly average increase was 9.6 percent and there was more balanced development each year without great ups and downs. By the end of 1988, the number of industrial enterprises throughout the region reached 8,293, a 1,021 enterprise increase over the figure of 10 years ago. By the end of 1987, industrial enterprises which carry out their

accounting independently possessed fixed assets worth 19.9 billion yuan, a 1.2-fold increase over 1979, and realized 1.961 billion yuan of profits and taxes, a 1.9-fold increase over 1979. During the 10 year period of reforms, the region has cumulatively realized 87.8 billion yuan in total industrial output value (calculated in line with the 1980 fixed prices), a 59.4-percent increase over the figure scored 26 years ago (1953-1978).

The proportion between light and heavy industries has been tending toward rationality. During the 10-year period of reforms, our region has promoted light industry to achieve rapid development by concentrating on readjusting the proportion between light and heavy industries, enforcing the "policy" of giving six preferences to light and textile industrial development, and readjusting the service direction of heavy industry. During the 10 year period, the region's light industrial output value showed a 1.7-fold increase over 1978 and the yearly average increase reached 10.4 percent, which apparently surpassed the 9.0-percent average increase of heavy industry. The proportion between light and heavy industries was readjusted from 41.6:58.4 in 1978 to 44.9:55.1 in 1988 and tended all the more toward rationality.

The industrial enterprises of various categories have achieved overall development. Comparing the development of 1988 with that of 1978, the state-run enterprises' production showed a 1.4 fold increase and their yearly average increase was 9.2 percent; collectively owned enterprises' production showed a 1.5 fold increase and their yearly average increase was 9.5 percent. Meanwhile, the industrial enterprises of other categories, which are chiefly individual-run enterprises, have cropped up as the times require in the course of reforms and achieved rapid development. During the 10 year period, they showed a 4-fold increase and their yearly average increase was 17.5 percent. They realized 890 million yuan of output value which accounted for 6.5 percent of the region's total industrial output value.

The variety of products has continued to increase and output has increased on a large scale. During the 10-year period of reforms, of the light and textile industrial products, woolen goods showed a 2.3-fold increase, wool thread showed a 1.4-fold increase, wool blankets showed a 5.5-fold increase, leather showed a 0.3-fold increase, dairy products showed a 6-fold increase, sugar showed a 2.6-fold increase, and television sets showed a 270.5-fold increase. The production of bicycles, washing machines, and recorders has grown from nothing and has achieved a certain scale. Of the heavy industrial products, raw coal showed a 0.7-fold increase, timber showed a 0.6-fold increase, power output showed a 2.7-fold increase, pig iron showed a 1.1-fold increase, steel showed a 1.2-fold increase, steel products showed a 1.3-fold increase, aluminium showed a 1.3-fold increase, cement showed a 1.6-fold increase, and plate glass showed an 8 fold increase.

Economic results have markedly increased. First, labor productivity has increased on a large scale. In 1988 the per capita productivity of state-run industrial enterprises reached 10,774 yuan, a 71.9-percent increase over 1978. Second, the standard of profits has reached a higher level. All industrial enterprises which carry out their accounting independently increased their per-100-yuan taxes and profits from 12.59 yuan in 1979 to 17.79 yuan in 1987 and showed a 41.3-percent increase in this regard. Third, the number of enterprises which are suffering losses has decreased. The rate of industrial enterprises which carry out their accounting independently and are suffering losses decreased from 13.3 percent in 1979 to 10.1 percent in 1987.

FOREIGN TRADE, INVESTMENT

Trade 'Boom' With Latin America

40060479d Beijing GUOJI SHANGBAO in Chinese
11 Apr 89 p 1

[Article: "Economic Trade Between China and Latin America Experienced a Boom Last Year"]

[Text] Last year there was rapid development in economic relations and trade between China and Latin America, with the volume of imports and exports reaching the highest level in history. According to statistics from the Ministry of Foreign Economic Relations and Trade, the trade volume for 1988 between China and Latin America totalled \$2.13 billion. This is an increase of 39.47 percent over 1987 and an all time record high. The major reason for this is that Latin American countries are supplying raw materials that suit the needs of China. China has rapidly increased its imports, importing 72.2 percent more than in 1987. Items that increased the most included unrefined sugar, iron ore, fish meal, wool, steel, pig iron, polyethylene, polypropylene, paper pulp, chemical fertilizer, lumber, and wheat. China's exports to Latin America, in addition to crude oil and other traditional commodities, included the opening up of some new products such as coke, fishing boats, cargo ships, and coking coal. However, due to limited supply, it was difficult for us to sufficiently meet their requests for some popular products, which caused us to lose opportunities to do business. This resulted in China's export volume to Latin America falling off by 23.5 percent.

There was significant development in economic cooperation. Last year China and Latin America carried out contracted projects, labor cooperation, and set up some sole proprietorships, joint investment, and jointly managed enterprises that achieved encouraging results. For example, the China Harbor Construction Company is progressing smoothly in dredging a harbor channel for Mexico and Colombia, and has achieved rather good economic benefits; the China Aquatic Product Corporation and the Argentina No 1 Company established the "China-Argentina Fishery Limited Company" with joint

investment; the China International Trust and Investment Corporation established a catalytic cracking agent factory in Argentina and is now dealing with specific problems of the project; related companies of China have signed letters of intent with enterprises from Chile concerning cooperation in fishing and mining and four specific cooperative production agreements; the China National Pharmaceutical Import and Export Corporation has signed an agreement with Mexico for a jointly operated "China-Mexico Pharmaceutical Import and Export Limited Company." To date, there are 17 mutually beneficial economic projects between China and Latin American nations with a total investment of \$36 million. At present there are over 100 projects in the consultation stage of which 25 have made substantial progress.

Economic trade interchange between China and Latin America must have improved internal cooperation to prevent delegations that are sent out being overly organized or too excessive in number.

Economic cooperation should be carried out at a steady pace. In the last few years, some Latin American nations have incurred heavy foreign debts and their economic situation has deteriorated. Therefore, when China is developing economic cooperation with Latin American nations, it should conduct a full and careful investigation, and not become neglectful which would cause unnecessary losses.

Beijing University Economist on Country's Foreign Debt

40060417 Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 1, 20 Feb 89 pp 1-5

[Article by He Xiaofeng 0149 1420 6912, Department of International Economics, Beijing University: "Looking at China's Foreign Debt From the Perspective of the National Conditions"]

[Text] People at home and abroad have rather great differences of opinion regarding the issue of China's foreign debt.

The pessimistic opinion is that if the scale of loans contracted during the Eighth 5-Year Plan were at the same level as in the Seventh 5-Year Plan, then, the debt ratio would be around 22 percent, and repayment of principal and interest on the Eighth 5-Year Plan medium-term loans would peak around 1993. Certain bankers in China contend that the country should lower its scale and proportion of foreign debt, and that it cannot imitate the common international scale of foreign debt.

The optimistic opinion is that debt problems are unlikely to occur in the 1990s. China's annual debt ratio was less than 10 percent from 1979 to 1988, and according to the present rate of loans contracted, China's debt ratio until the year 2000 will be 14.6 percent at most, which is less

than the 20-25 percent safety line. Furthermore, at present, China's long-term debt is approximately 68 percent of total liabilities. Average debt maturity is 25 years with an average grade period of 8 years.

To analyze whether China will face a debt crisis in the 1990s, we must first understand the nature of the country's present foreign debt growth scale, and make an analysis of the comparable and incomparable factors in the issue of foreign debt between China and developing countries. This will be attempted from the following seven aspects.

I. Foreign Debt Scale

At the end of 1987, China's actual borrowed foreign debt was approximately \$26.26 billion, of which, \$5.33 billion was actually borrowed in 1987.¹ In the last 3 years (1985 to 1987), China's average annual actual foreign debt growth rate was 45.7 percent; although in 1987, it increased only 6.4 percent, lower than the 9.4 percent GNP growth rate during the same period. In other words, China's borrowed foreign debt stopped growing last year. The following table is a comparison of the 3-year growth rate.

| Index | 1985 | 1986 | 1987 |
|-------------------------------------|-------|-------|------|
| Actual foreign debt (\$100 million) | 26.88 | 50.15 | 53.3 |
| Growth rate (%) | 109 | 86.6 | 6.4 |

Source: China Statistical Yearbook for each year and 1987
TONGJI GONGBAO [STATISTICAL REPORT].

If compared to all developing countries, China's foreign debt scale is still low. According to statistics, the foreign debt balance of all developing countries was approximately \$1.234 trillion in 1987, of which, China accounted for 2 percent. Moreover, the proportion of several kinds of relevant foreign debts was far lower than the overall level of the developing countries, as indicated in the following table:

| Index | Developing countries (1986) | China (1987) |
|---------------------------------------|-----------------------------|--------------|
| Foreign debt to percentage of GNP (%) | 35.4 | 9* |
| Foreign debt to export ratio (%) | 144.5 | 66.5 |
| Debt ratio (%) | 22.3 | 7 |

Source: For data on the developing countries, see Chapter 2, 1987 *World Development Journal*, The World Bank; data on China derived from 1987 TONGJI GONGBAO [STATISTICAL REPORT], State Statistics Bureau of China.

*The 9 percent figure was calculated according to official currency exchange rates; it would be approximately 15 percent if calculated according to readjusted exchange rates.

The figures in the preceding table indicate that China's foreign debt scale is characterized as having a small base, a large growth rate, and it is still low by international

standards. However, it is noteworthy that: The growth rate last year fell abruptly. This leap-style change reflects the phenomenon of "overcorrecting" in macroeconomic control.

II. Foreign Debt Channels

Several organizations with authority over foreign debt in China have exhibited a certain chaos in the last 2 years. Several foreign organizations have cried out in alarm that up to the end of 1986, more than 1,700 enterprises, and central government and local organizations held foreign debts.² At present, it appears that the chaos has been brought under control; the state has stipulated that only five organizations have the authority to contract foreign debts. All foreign lending units must register with and report to the Foreign Exchange Management Bureau. At present, foreign lending is uniformly controlled by the state Foreign Exchange Management Bureau, although the Ministry of Finance is responsible for loans to China provided by the World Bank.

The present problem is that statistical data on China's foreign debt is unclear because complete statistics are lacking on the many foreign trade departments and localities who earlier independently borrowed foreign funds, and the caliber of existing statistical indices varies. There is a several billion dollar difference between the foreign debt figure China provided to the International Monetary Fund and its own figure. Furthermore, the state has not established a system for forecasting, analyzing information on, and sounding alarms regarding nationwide foreign indebtedness. This is different from the case in China and certain developing countries. For example, Thailand's Ministry of Finance is responsible for the "International Foreign Debt Policy Committee" composed of high-level representatives from the Bank of Thailand, the National Economic and Social Development Board, and the Office of the Budget. It is the highest decisionmaker regarding foreign debt. Peru spent more than several \$100 million to establish an automatic foreign debt management system that can both predict future and manage daily foreign exchange needs, study debt repayment documents, and provide reference material on fixed and variable interest rates.

III. Types of Foreign Debt Currency

It is a basic economic tenet to avoid strong currencies in lending, and to avoid weak currencies in exporting, although managers of China's economy have only recently become acquainted with it. Because the quality of those involved in foreign economic work in the early stages was rather low, they lacked understanding and foresight regarding the international financial market, leading China to bear heavy exchange risks in its foreign debt without sufficient guarantee measures. According to estimates of total borrowing over the past few years, 40 percent is actually in Japanese yen, and since 1982 the

Japanese yen to renminbi exchange conversion value tripled. Others estimate that China transacted nearly 1.0 trillion yen in Japanese yen loans from 1979 to the end of 1985. In contrast, China's export trade has always been valued mainly in U.S. dollar terms. Thus, we have suffered what should have been avoidable losses by redeeming the devalued U.S. dollar for appreciated Japanese yen. As Fujian province forecasts, for every 10 billion Japanese yen, we have to spend an extra \$170 to \$180 billion dollars in foreign exchange due to changes in currency values.

In order to avoid the risk of losses involved in foreign exchange, China must learn from the commonly used international surety measures. For example, establish a system to collect, analyze, and dispense international financial information; hold lending to the principle of a multi-currency, rationally organized structure; promote long-term buying and selling of foreign exchange, debt swapping; and agreements to share exchange risks, etc.

IV. Borrowing Methods

Regarding China's foreign borrowing methods, they include loans from foreign governments and international financial organizations, foreign issued bonds and debentures, commercial bank loans, international leasing, sellers' credits, and compensation trade. There were no commercial bank loans to compare with in China prior to 1983, but in 1986, foreign commercial bank loans accounted for 60 percent of China's total foreign debt,³ a related fact is that the percentage of short-term foreign debts and the level of interest rates rose. The peak in returning principal and paying interest may be moved forward in connection with such a situation as this plus the over-concentration of debt growth years.

World Bank loans hold an important position in China's foreign debt. China signed agreements on 52 projects with the World Bank through June 1987, consenting to borrow \$5.5 billion. In the next 5 years, the World Bank will increase loans to China. The figure for 1988 to 1992 will exceed \$12 billion, for an average annual loan of more than \$2 billion.

China began issuing bonds and debentures overseas in 1982. Until the end of August 1987, 29 bonds and debentures for an accumulated total of \$3.016 billion (exchange rates calculated from settlement day) were issued by six domestic organizations in the Tokyo, Hong Kong, Frankfurt, and Singapore markets. The six organizations were: The Bank of China, China International Trust and Investment Corp., the Fujian Investment Enterprise Corp., the Guangdong International Trust and Investment Corp., the Shanghai Investment and Trust Corp., and the Tianjin International Investment Corp. The present issues are: (1) The Japanese yen is the main currency for the bonds and debentures, as 18 of them were issued in yen, accounting for 68.7 percent of the total figure. The U.S. dollar accounts for 24.86 percent, the mark for 3.48 percent, and the Hong Kong

dollar for 2.98 percent. To a great extent, this is due to preferential interest on loans given to China by the Japanese government in the competition by financial organizations from various countries to lend to China. This tells that Japan can give lower interest loans than organizations in other countries, but it also reflects the over-attention paid by those handling the matter in China to interest rates, and their neglect of exchange rate risks. This is one example of the comparatively low level of loan management. (2) The trust grades of China's bonds and debentures are tending to fall. In 1984, appraisal organizations in Japan gave the Bank of China the highest 3A grade rating. In May 1988, the U.S. (?Moody) Investment Co. graded one of the Bank of China's mark-bidding price bonds A3. Although the grading organizations and their motives differ, the leaders of the Bank of China were dissatisfied with Moody's appraisal. This reflects somewhat foreign countries' reservations towards China's expanding foreign debt.

V. Foreign Debt Interest

Although at present it is difficult to collect comprehensive figures reflecting interest levels on China's foreign debt, however, considered from certain comments, interest is not at all high on some of China's large foreign debt projects. Yet, considered from some case studies, interest levels on the foreign debts of some provinces are higher than international standards due to the higher proportion of short-term loans by commercial banks in recent years. According to World Bank reports, from 1980 to 1985, the actual interest rate of industrially developed countries was 5.2 percent, the international commercial lending interest rate was 5-6 percent, and the global interest rate trend is falling. However, during the same period, Fujian province's foreign debt fixed interest rate was 80 percent, so it did not enjoy the advantages of lower interest rates. The following table lists Fujian's commercial lending and foreign debt interest rate structure.

| Currency | Type of interest rate | Interest level | Proportion of outstanding debt at end of 1986 |
|-------------------|-----------------------|----------------|---|
| Japanese yen | Fixed | 7.1-8.5 | 40.8 |
| U.S. dollar | Fixed | 7.9-14 | 22.8 |
| U.S. dollar | Variable | L-L+0.875 | 18.6 |
| Hong Kong dollar | Fixed | 6-12 | 5.5 |
| Hong Kong dollar | Variable | L-L+0.325 | 1.3 |
| British sterling | Fixed | 9.15 | 4.5 |
| Australian dollar | Fixed | 8-9.9 | 6.5 |

Note: L in the table under "interest level" is an abbreviation for LIBOR (London Interbank Offered Rate).

VI. Investing External Loans

We still have not seen clear and accurate data regarding the investing external loans. However, we can see from certain discussions that there are problems with China's

investment of external loans direction in terms of the following three relationships:

First is the relationship between using foreign debt for foreign exchange-earning exports and to meet domestic demand. Certain loan projects can play the role of filling in the gap in domestic technology or import substitution. However, certain import substitution projects cannot reduce nationwide imports of similar commodities under the complex domestic system, and certain export projects that should earn foreign exchange cannot increase total foreign exchange income. Therefore, the percentage of loan projects that can actually earn foreign exchange is far too small, and this has made foreign debt repayment a serious issue. We should make expansion of exchange-earning export projects an emphasis of foreign debt direction.

Second is the contradiction between macroeconomic and microeconomic returns. The irrational domestic pricing system has divorced the macroeconomic returns of investment projects from their microeconomic base, thereby making it difficult to invest in infrastructure and certain public engineering projects. It is imperative to clarify certain external debt principles under the tortuous pricing system, which would be hard to improve in a short time. First, in principle, medium- and long-term, low interest loans for infrastructure and public engineering should be undertaken; second, we should strengthen microeconomic control over projects with good macroeconomic returns. This requires not only an enhanced contract responsibility system and cutting down on investment waste, but also dissemination of some economic parameters such as shadow exchange rates, shadow prices, investment discount case rates, etc., to be used in project management and accounting so as to turn external and invisible social returns into internal and calculable microeconomic returns as much as possible.

Third is the relationship between common and advanced technology. In a big country like China, it is necessary to both develop simple applied common technology and advanced high technology. Overall, there should be a multiple, overall integrated structure. Nevertheless, we should lay different emphases on utilization of foreign loans and direct foreign investment. We must make it clear that the principle of investing foreign loans is on advanced technology and avoid the tendency to simply develop labor-intensive externally oriented projects.

VII. Repayment Ability

China now no longer has a foreign debt crisis when the issue is weighed in terms of three internationally used indices: (1) The foreign debt balance is less than 20 percent of GNP. Calculated according to official exchange rates, China's figure was 9 percent in 1987. (2) The annual principal repayment and interest payment percentage is less than 20 percent of exchange income earned from exports. China's figure was 7 percent in 1987. (3) The foreign debt growth rate is smaller than or

equal to GNP growth rate. Before the end of 1986, although China's foreign debt growth rate was greater than GNP, there was a definite rational reason for it, as it got a late start and the base was low. In the last year it has been readjusted. The foreign debt growth rate (6.4 percent) was less than the GNP growth rate (9.4 percent) in 1987.

Nevertheless, we will face a peak period of principal repayment and interest payment in the early 1990s due to three unfavorable factors concerning China's foreign debt in recent years (a relatively large proportion of strong currencies, an overly fast increase in commercial lending, and corresponding interest rate increases). It is estimated that from 1991 to 1993, approximately \$12 billion in foreign debt will have reached the repayment stage. China will face the pressures of expanding export earnings and shrinking use of foreign exchange for imports at that time.

Although there is still no cause for anxiety regarding debt repayment ability from an overall national viewpoint, various areas are as yet imbalanced. Repayment of foreign debts borrowed at the local level are subject to restrictions on "the amount of foreign exchange available for use" because China's foreign exchange income is divided among the central government, localities, and enterprises. Furthermore, exchange is used in line with central government "exchange use targets." That is to say, foreign exchange income realized at the local level is merely a theoretical figure for the locality itself. The actual amount of locally retained foreign exchange is a locality's effective foreign debt payment ability. Taking Fujian province as an example, figuring the future repayment of principal and payment of interest and the amount of foreign exchange available, the average debt rate during the Seventh 5-Year Plan is 18.5 percent. The average debt ratio borne by primary provincial organizations is 38.6 percent; they have crossed the 20 percent security line. Fujian's original foreign exchange income base was low and in recent years its foreign exchange income has been wavering without growing. Moreover, its foreign debt has grown very quickly. Therefore, beginning in 1987, it entered a peak period of principal repayment and interest payment. In the future Fujian will face two more repayment peaks (1991 and 1995). Concurrently, Fujian's import needs are rapidly rising with no chance of falling. The balance for reducing imports is relatively small. This can be seen in that in recent years the province's use of foreign exchange for industrial and agricultural raw and supplementary material imports accounts for 45 percent of total foreign exchange use. Technology and equipment accounts for 15 percent. An overly high debt ratio may have a negative influence on the province's international income, fiscal receipts, and credit.

Therefore, real problems with China's future repayment responsibilities may appear at the local or departmental "mid-term outlook." They are connected to macroeconomic policy and microeconomic management returns,

so problems with any will lash away at the central economic outlook. We presently face several disadvantageous factors in economic outlook management. First is "competition." There is a strong tendency for regions to pursue one another in terms of gross product, utilization of foreign funds, and export income, while scant attention is paid to improving capital utilization rates and lowering costs. The second factor is that localities and departments constitute the main bearers of foreign debt. Localities essentially bear the burden for foreign debts of first level localities and enterprises beneath them. They also must bear responsibility for remittance of foreign exchange to the central government. Third, regarding exports, while subject to central government restrictions (permits, customs taxes, etc.), there is competition among localities and departments to cut prices. There are limits to total foreign exchange income and exchange available for use. As a consequence, they have a relatively low effective outlay ability. Fourth, foreign debt management is poor at the mid-term outlook level. The quality of personnel is comparatively low. There is essentially no regionally established foreign debt management, information analysis, and forewarning system. These factors forebode the likelihood of difficulties and problems in foreign debt repayment at the mid-term outlook level in the first half of the 1990s.

We may reach an overall conclusion based on the above analysis: The critical issue with China's foreign debt is not so much its quantity as its quality; nor is the problem its entanglement with several standard arguments on quantity. The crux of the matter lies in the characteristics and control measures for foreign debt "borrowing, use, and repayment." In particular with reference to the central outlook, the central government should, while improving macroeconomic controls, implement different guiding policies for each province and municipality; use effective measures to help and supervise improvement of localities' and departments' foreign debt management; and maintain a rough balance between local and departmental structures. This is really a new task for central government departments used to "arbitrary uniform" measures. It takes hard work. China can further expand its scale of foreign debt without encountering debt crisis problems similar to those certain developing countries face by the efforts of the central government and localities to strengthen foreign debt management.

Footnotes

1. RENMIN RIBAO, 24 Feb 88.
2. *The Economist*, Britain, 19-25 Mar 88.
3. Ibid.

Development Strategy for Light Industrial Exports Proposed

40060423 Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 89 pp 11-15

[Article by Ren Xianzheng 0117 6343 2973 of the Institute for the Study of International Trade Problems, University of International Business and Economics: "Exploring the Strategies for Developing the Export of Light Industrial Products"]

[Text] I. The World Market for Light Industrial Products and a Brief Account of China's Export Situation

Almost all light industrial products are people's everyday consumption goods, but some are used in productions. In 1985, a total of \$160 billion's worth of light industrial products were traded in the international market, comprising 8 percent of the \$2 trillion total international trade figure. Because most light industrial products are things people need in their daily lives, as production develops and the people's living standard rises and science and technology make further progress, people also demand more and more of these goods. Besides those products needed to satisfy people's everyday needs, some high quality, multipurpose, fashionable, time and energy saving, convenient, elegantly packaged, safe and sanitary products that embody practicality, aesthetics, and intelligence have become popular items in the market. Statistics show that, on the whole, the volume of light industrial products in world trade has increased faster than the overall world trade volume. For example, the overall world trade volume in 1984 was 6.9 percent higher than in the previous year, and it grew another 3 percent in 1985, but the volume of light industrial products grew more than 10 percent each year. From the point of view of future development, the market for light industrial products still looks promising.

In the broad sense, the textile industry is an important part of light industry. In China's production management system, however, the textile industry has been separated from light industry, and some handicrafts too are independently listed. Thus, when we discuss the production and export of China's light industrial products, we have excluded the above independent industries.

Based on materials provided by relevant departments, the total output value of the light industry system for 1985 targeted by the Sixth 5-Year Plan was 131.7 billion yuan, with an annual rate of increase of 7 percent. In reality, the total output value topped 132.5 billion yuan by 1984, completing the Sixth 5-Year Plan 1 year ahead of schedule. By 1985, the light industry system has generated 157.4 billion yuan in total output value, with an average rate of increase of 10.9 percent per year. This is an impressive rate compared with any of the 5-year plans since the founding of the PRC. Under the Sixth 5-Year Plan, except for salt, bicycles, sewing machines, leather goods, and shoes which failed to fulfill the plans,

all other light industrial products under state planning were able to fulfill their plans; some even over-fulfilled their quotas. In particular, nine categories of major products, namely, paper and cardboard, washing machines, plastic goods, lightbulbs, home furnishings, electric fans, carpets, and large-scale, specialized weighing apparatuses did even better—they fulfilled their state plans 2 years ahead of schedule. In addition, to satisfy domestic and foreign market needs, the product-mix has been adjusted, and new products have been added. From 1980 to 1985, the light industry system developed as many as 3,000 new products and product categories, two-thirds of them were produced and marketed the same year they were developed. In those 5 years, besides the significant increase in the production of beer, soft drinks, plastic goods, detergent, everyday glass products, dairy products, canned goods, and toys, among others, some household appliances (washing machines and refrigerators, for example) managed even more impressive growth, and the quality has also improved, and there are many superior products being produced nationally or in the departments. Some products (violins, cellos, porcelain and ceramics, wine, foodstuffs, and carpets, for example) have won gold and silver medals in major international competitions. Because we have actively brought in advanced technologies and management skills from abroad and absorbed and digested them and have upgraded existing enterprises, advocated more production and less expenditure, reduced enterprise consumption of energy and raw and processed materials, and raised the technological standards, we have made our export goods more competitive. During the Sixth 5-Year Plan, light industrial exports have earned an accumulated sum of \$24.2 billion in foreign exchange, 75 percent more than during the Fifth 5-Year Plan. In 1981, total export of light industrial products was worth \$4.965 billion, doubling in 3 years the \$2.465 billion in 1978. But there was a downturn after 1982. The export value was \$4.913 billion in 1983, \$52 million less than in 1981. The main reasons were: 1. After 1981, profit margin of light industrial products began to fall sharply every year, and losses began to mount. This forced the state to limit the export of money-losing products. Under the old economic and foreign trade systems, because of soaring light industrial raw materials and energy prices, and because the foreign trade departments had cut their procurement quotas or suppressed procurement prices, many enterprises had to cut back on production, switch to other products, or even stop production, and export plummeted. 2. Changes in the product-mix had not kept up with the changing consumption-mix; product quality, style and varieties did not satisfy the demands of the international market. 3. After power to make foreign trade decisions was handed down to the lower levels, because the necessary macroeconomic controls had not kept up, "bootlegging" goods swamped the market. Some departments, localities, and enterprises only worried about their own immediate profit and ignored the big picture. In particular, there was no coordination in

the export of similar goods, and this led to blind competition which ignored economic benefits and serious consequences, and in essence, this allowed foreign merchants to take advantage of the situation and reap huge profits at the expense of the state. 4. Enterprises were of poor quality. Their technological and management standards were low, and their products had become less and less competitive in the international market.

In recent years, because reforms (restructuring of the economic system, political reform, reform of the technological structure, and reform of the foreign trade system, and so on) have become more thorough and the scope of opening up to the outside world has broadened and we have taken full advantage of the international situation which so far has been favorable to China, the export of light industrial products has resumed its upward trend since 1985. In 1986, export of light industrial products was worth \$6.547 billion, comprising 24.3 percent of all exports for that year (source: "1987 Yearbook of Chinese Foreign Economics and Trade.") At a 10 percent annual rate of increase, by 1990, export of light industrial products may reach approximately \$10.5 billion, and it is entirely possible to fulfill, and even over-fulfill, the plan to double that figure by the end of the century ahead of time.

II. Select the Export Product Mix Realistically and Properly

The State Council's report on the Seventh 5-Year Plan pointed out, "to increase exports and earn more foreign exchange, it is fundamental that we adopt the correct strategy which satisfies the needs of the international market and which is right for China." One of the important steps is to strive to improve the mix of export products and implement the "two changes." But there is a myriad of light industrial products, and we must be selective and choose the ones most in demand in the international market and which we have the ability to supply and which can bring in more foreign exchange. We must optimize the mix of export products and commit to the general policy of giving prominence to the key products without neglecting the ordinary goods. The selection of key light industrial export goods should include the following elements:

1. The products should have substantial and steady demand in the international market and are indispensable in everyday life.
2. There should be a rich source of high quality, inexpensive, readily available raw materials.
3. Products which are compatible with the quality of China's labor force and can take advantage of China's low-cost labor.
4. Products which are internationally known and traditionally famous for their superior quality.

5. Products which give full play to the potential in China's light industrial enterprises.
6. Certain high-tech products which have good prospects for development internationally.
7. Products compatible with the lifestyles of people of different countries (regions).

III. Judge the Hour and Size Up the Situation and Develop Export in All Directions

World economic development has brought increased demands and has also made it possible for China to export more light industrial products. But we should realize that commodity prices in the international market have been falling since 1985, and in addition, protectionism in international trade has intensified, and these have adversely affected China's exports. Thus, when we set the geographic direction for the light industrial exports, we must consider China's general and specific foreign policies and the changes in the international market. We must guarantee the needs of the key markets, but at the same time we want to develop new markets constantly and export to every country. Statistics based on actual export of 11 categories of major light industrial products, including drawnwork, to 11 different countries (regions) in 1985 and 1986 show that Hong Kong and Macao, accounting for 45 percent of our market, rank first among importers of Chinese products; the United States ranks second (around 15 percent of the market); the Western European nations rank third (around 10 percent); Japan is fourth (around 9 percent); the Soviet Union and the Eastern European countries rank fifth (around 6 percent); the sixth is the Southeast Asian countries (around 4-6 percent); and then the Middle East, Australia, and Canada (around 2-3 percent); the Scandinavian countries and Africa, each imported less than 0.1 percent, round of the remainder.

Based on historic and current situations and the trend of foreign economic development, export of light industrial products in the future should take the following direction:

1. We should guarantee to meet the demands in the Hong Kong and Macao markets. More important, because processing facilities in Hong Kong and Macao are more advanced, their labor forces are technologically more advanced, they have better information, smoother foreign sales channels, convenient fund gathering and distributing facilities, low taxation, and good overseas transportation and communications, we need to take full advantage of these and other features which are characteristics of a free port to actively develop the export of light industrial products.
2. We should further increase export to the highly industrialized countries like the United States, Japan, and the Western European Community nations. Because these are economically strong nations or groups with

high consumption standards, they have definite demands for some of China's more labor intensive and light industrial specialty products such as drawnwork, carpets, shoes and other leather goods, porcelain and ceramics, fine furniture, straw, rattan, wicker and other woven products, and some labor-consumptive manufactured spare parts and fittings. Furthermore, China is bringing in new technology and equipment from these countries and is importing certain raw and processed materials (special kinds of steel product and chemical fertilizers, for example) which so far we are unable to produce or produce enough of to meet demand, and so we have to spend huge sums of foreign exchange. To maintain basic balance of payments, we must find ways to export more to those countries.

3. As political and diplomatic relations improve, we must take active steps to increase our exports to the Soviet Union and the Eastern European countries. In recent years, although trade with those countries has increased, it is still insignificant. Statistics based on export of 11 categories of major light industrial products, including drawnwork, show that export to the Soviet Union and the Eastern European countries was worth only \$89.05 million in 1986. If we adopt the proper policies and measures, and if we all work hard together, there is much future export potential to be tapped.

4. We should continue to strengthen and expand exports to Southeast Asia (Singapore, Malaysia, and the Philippines, for instance.) There are many citizens of Chinese origin and overseas Chinese living in Southeast Asia. They have always used Chinese products and are accustomed to them and like them. Statistics on 1985 and 1986 export of the 11 major light industrial products show that Southeast Asia's (primarily Singapore, Malaysia, and Thailand) share of the market has increased from 4.1 percent in 1985 to 6.6 percent in 1986.

5. We should export more to the Middle Eastern countries, especially the petroleum exporters and countries with high national incomes (primarily Turkey, Syria, Lebanon, Jordan, Iran, Iraq, Kuwait, Saudi Arabia, and the United Arab Emirates). In recent years, some Middle Eastern countries have been in political turmoil. When we export, we have to act according to circumstances to reduce risks.

IV. Several Major Problems That Require Special Attention

1. Form a proper concept of export.

Exporting should embrace the following two basic functions. One, seek comparative advantage through foreign trade, that is, export products which are less expensive relative to prices in the international market and increase our national income by earning foreign exchange. Two, when the manufacturers export their products, by participating in international competition, they should learn to understand international market

movements and stress our strong points and avoid the shortcomings so that enterprises may improve their technological and management standards and narrow the gap between us and the advanced international standards and promote the development of our national economy.

2. Solve the light industrial raw material supply problems.

Only if the supply of raw and processed materials is guaranteed can we increase the production, supply, and export of light industrial products; otherwise, it will be like trying to make bricks without straw. The manufacturing enterprises should draw on local resources as much as possible. At the same time, we should actively import raw and processed materials from abroad, process them, and export them again to propagate value.

3. We need to bring in advanced technologies and crucial equipment from overseas and upgrade the existing enterprises. As we absorb and digest what we brought in, we should also be innovative and compete in the international market and increase exports.

4. Enhance product quality inspection; ensure quality control, and make the products better known abroad.

In the future, industrial products destined abroad must be manufactured strictly according to international standards. There must be strict quality control to prevent any poor quality products from being shipped out. At the same time, we must constantly improve the quality of the brand name products and make them better known abroad.

5. Utilize modern information technologies and react quickly to changes in the international market.

The international market is ever changing, and the light industrial product market is even more transient because of the effects of the new technological revolution and because fashion changes all the time. After World War II, propelled by the swift and sharp development of electronic technology, and because of the development of the transportation and communications industries, international communications have been speeded up even more. We must make use of every modern method skillfully to gather, process, and deal with new information in a timely fashion and keep abreast of the changing demands and the developmental trends in the international market so that we can make better decisions about the production and export of light industrial products in the future.

6. Work harder to promote sales.

We should adopt more versatile and diverse sales methods. Besides holding frequent light industrial export product exhibitions and trade fairs at home (some may be national or regional fairs; some can be comprehensive

or specialized; some can be large-scale fairs and others small,) we should "get out" and take part in various influential international expositions to promote and sell our products and let people all over the world have a chance to appreciate Chinese products. Meanwhile, by participating in international exhibitions, we can learn about other people's products which may be useful to us. We should also make full use of commissioned salesmen and sales agents who have rich sales experience and broad sales channels. We must pay them handsomely to entice them to work for us and promote our products. We must set up a complete set of sales network, including premarketing surveys, advertising and promoting, sales and after sales services, for our key export products.

7. We must enhance our prestige and raise the contract completion rate.

Our inability to fulfill our export contracts on time is one of the major factors hindering the development of our exports. Based on a survey of specialized import-export companies in 20 provinces, municipalities, and autonomous regions by the Ministry of Foreign Economic and Trade's Department of Comprehensive Planning, in 1986, the average monthly contract completion rate was 60.6 percent, which is the lowest completion rate of the last 4 years. In the same year, the light industrial product import-export companies completed on time only an average of 54.4 percent of the export contracts each month, which is 6.2 percent lower than the overall average. It is imperative that we take effective measures immediately to raise the export contract completion rate.

8. Promote integrated production operations.

Integration primarily means establishing an export production system for light industrial products and integrate commerce and industry, commerce and technology, and commerce and agriculture, and merge supply, production, and sales into one unit and set up export groups (companies). We need to change the old situation where foreign trade and production are separate entities.

9. Establish transnational companies.

We can learn from South Korea, Hong Kong, and Taiwan's experiences and absorb foreign funds and build new plants in countries where we export goods to, so that the quality, specifications, design and style, and packaging of the products can meet local demands more quickly.

10. Establish an export association.

We should set up a product-oriented export association for the key light industrial export products (especially the overlapping products). We have to coordinate the production and export plans, promote communication

between industries, study ways to enhance export measures, take concerted action, and unite to face the outside world.

Guangxi Measures To Encourage Steady Increase of Exports

40060521b Beijing GUOJI SHANGBAO in Chinese
25 Apr 89 p 1

[By correspondent Li Chang 2621 7022 and Zhu Zhiping 2612 1807 1627: "Guangxi Adopts Measures To Ensure Steady Increase of Exports"]

[Text] On 1 April the Guangxi Autonomous Regional Government issued an urgent notice ordering relevant departments throughout the entire region to quickly adopt resolute and effective measures that will effect a change in the state of passivity with regard to foreign trade, procurements, and exporting, and that will ensure continued steady increase in exports.

The notice emphasized the need to firmly and effectively take in hand the following seven measures:

Strengthening leadership in foreign trade affairs, to ensure actual and smooth fulfillment of all items in the foreign trade plan for which contractual responsibility had been assumed by the various prefectures, municipalities, counties, and units directly under the regional government.

All banks of the autonomous region and of the various prefectures, municipalities, and counties must actively raise capital and energetically support the procurement and exporting of foreign trade goods, and solve the urgent need of foreign trade enterprises for loans.

As ordered by the State Council, the financial departments at all levels must see to it that export capital, made available by the central authorities, promptly and to the full amount reach the various types of foreign trade enterprises, and must not with any excuse or pretext retain funds at the different levels, delay payment, or even divert the funds to other uses, which would adversely affect foreign exchange earnings from exports.

Tax departments at all levels must firmly implement the state's principles for refund of taxes with respect to exports, and ensure that the tax refunds for exports are smoothly carried out.

Governments at all levels, departments at all levels in charge of economic affairs, and departments at all levels in charge of industrial and commercial affairs and of commodity prices must realistically strengthen the administration of sources and prices of export commodities, prevent diversion of export commodities to outside the region, strictly prohibit driving up prices, and any rush to buy up export commodities at inordinately raised prices.

Specialized export enterprises throughout the region must resolutely and effectively tap potential, devise means to solve the question of funds, raise the utilization ratio of funds, and accelerate the turnover of funds. All foreign trade enterprises and industrial enterprises doing their own exporting must pay special attention to the procurement of commodities in season, make rational arrangements for their export, and strive to export larger volumes at an earlier date.

Railway and communications departments must ensure unobstructed movement of import and export freight, without delays, without protracted storage, and without delays in ports. Departments in charge of energy sources, electricity supply, and supply of materials must preferentially ensure the supply of electricity and raw and semiprocessed materials for the production of export commodities. The departments of the maritime customs and commodity inspection must give preferential treatment to imports and exports of foreign trade commodities, and while strictly attending to their checks and inspections, must simplify procedure and raise the efficiency in the performance of their duties.

Qinghai Official on Earning, Conserving, Using Foreign Currency

40060521c Xining QINGHAI JINGJI BAO in Chinese
25 Apr 89 p 1

[By Li Gongjun 2621 1872 6511: "Actively Support Export To Earn Foreign Exchange, Rationally Control Use of Foreign Exchange for Imports—Strive To Effectively Regulate Foreign Exchange, Ensure Its Use at Key Points, Do a Good Job at Ensuring Profitability—Vice Governor Bian Yaowu Put Forward Five Demands for the Effective Management of Foreign Exchange in Qinghai Province"]

[Text] "Conscientiously implement the spirit of the 3d Plenary Session of the 11th CPC Central Committee, further enhance and perfect measures for the macroeconomic regulation and control of foreign exchange and foreign loans, actively support exports to earn foreign exchange, rationally control use of foreign exchange for imports, strive to effectively regulate foreign exchange, ensure its use at key points, do a good job at ensuring profitability. Make certain that Qinghai's plan for income and expenditure of foreign exchange is realized, render more service to the development of Qinghai's economy and for the expansion of exports." These were the general demands for this year's management of foreign exchange in Qinghai, put forward on 31 March by Vice Governor Bian Yaowu [0593 5069 2976] at the conclusion of the conference on the management of foreign exchange in Qinghai Province.

On discussing in what manner management of foreign exchange may be improved this year, Bian Yaowu pointed out that, first, it is necessary to improve coordination, to make a concerted effort, and to work hard to

support exports and to increase foreign exchange earnings. The foreign exchange control departments must actively support the foreign trade departments to further improve the contract management responsibility system, support the increased establishment of bases serving as sources for export commodities, guide the development of export commodities toward multiple processing, and adjust the export commodity mix. Continue to adopt flexible exchange control measures, support the foreign trade departments in a variety of methods, such as sales bonuses, barter trade, free-market purchases, joint operations, etc. for certain availability of several sources for export commodities. Promote a variety of trading forms, such as countertrade, marketing agencies, import-export back-to-back trade, etc., and open broad channels for exports and foreign exchange earnings, strive to increase the exchange returns for exports, and at the same time be prompt in receiving and settling of exchange.

Second, we must rationally control exchange investments in imports, to make the best possible use of the limited amounts of available exchange. We must enhance management of exchange revenue and expenditure, raise the effectiveness of the utilization of exchange, and rationally control use of exchange for imports. In line with the industrial policy of the state and the demands for increased supplies, we must guide all departments, all localities, and all enterprises to make good use of the exchange they are entitled to retain, use the limited exchange at key points in agriculture, raw materials for the light and textile industries, for the production of daily necessities of the people, and for the production of export commodities that will earn foreign exchange. We must strive to raise the utilization benefit, to control currency inflation and for the purpose of increasing effective supplies.

Third, we must further improve and perfect the work of accounting and allocating foreign exchange allowed to be retained by the exporters, and increasingly mobilize the enthusiasm of localities and enterprises for earning foreign exchange. Foreign exchange departments must promptly convert to cash the retained exchange of localities and enterprises of Qinghai Province, must enhance auditing and supervision of the accounting and allocating of retainable foreign exchange, and it shall not be permitted to stop and hold back retainable exchange belonging to localities and enterprises, so as to safeguard the economic interests of enterprises that export and earn foreign exchange.

Fourth, we must use some method of regulating foreign exchange to support the development of the local Qinghai economy. The provincial foreign exchange regulating center is the foreign exchange agency of Qinghai Province, and the regulation of foreign exchange of every locality and every enterprise shall be conducted through this center. The foreign exchange regulating center must continue to firmly maintain its principle of service, maintain the principle of "taking care of two parties, while being placed in the middle," by every possible means mobilize and organize the regulation of foreign

exchange sources, and accurately guide and regulate the direction of foreign exchange investment.

Fifth, we must accurately handle the four relations and raise the level of foreign exchange management. The new situation demands that Qinghai's foreign exchange control departments strengthen their own organization and raise the level of foreign exchange administration. Presently, we have to accurately deal with the four relations. One, successfully deal with the relationship between central authority foreign exchange and local authority foreign exchange. Second, the relationship between creating and using f. exch. Only by creating more foreign exchange and a greater intake of foreign exchange can more foreign exchange be used. We must devote more energy to driving the enterprises to create more foreign exchange and to take in more foreign exchange. Third, strengthen the relationship between the state's increased macroeconomic regulation and control and promoting greater vitality in the enterprises. Fourth, the relationship between administering and rendering service. Foreign exchange control departments must organically integrate control with service.

AGRICULTURE

Exploitation of Agricultural Resources Urged
HK1005131089 Beijing JINGJI CANKAO
in Chinese 24 Apr 89 p 1

["Forum:" "It Is Necessary To Blaze a New Trail in Exploiting Agricultural Resources"]

[Text] Stagnation in agricultural production during the last 4 years reminds us that, in agricultural development, it is inadequate to rely on just the present acreage of farmland or to confine ourselves to conventional agriculture. It is necessary to effectively and fully utilize our country's rich resources and to exploit agricultural resources on a large scale and in a comprehensive way. This is a measure of strategic significance and is also where the hope of China's agricultural development lies. With a good job done in this respect, our country will usher in a new situation in agricultural production.

The exploitation of agricultural resources mentioned here includes two aspects: One is qualitative exploitation. In other words, low-yield farmlands should be transformed, agricultural productivity should be improved, and per unit output should be raised. The other aspect is quantitative exploitation, namely, the exploitation and utilization of new agricultural resources.

There is still great potential to be tapped in China's agricultural resources. There are 1.5 billion mu of cultivated land throughout the country. Of this acreage, about 800 million mu is of a low- and medium-yield nature. With a per mu increase of 25 kg, there will be 20 billion kg more of grain. In addition, wasteland that can

be made available for agricultural production totals 500 million mu, unused shoals amount to 20 million mu, shallow water areas are about 30 million mu, barren mountain slopes suitable for afforestation are 1 billion mu, and grasslands suitable for grazing are 700 million mu. In short, there is an urgent need to exploit the country's agricultural resources, which have great potential and promising prospects.

However in terms of investment for the exploitation of agricultural resources, it is necessary to change the previous practice of making investments without an economic return or an increase in value and to overcome the lack of internal impetus and vitality. We should carry out an operational-type exploitation, link investments to economic results, and compensate for the use of operational funds.

Methods of exploitation should be worked out according to specific conditions. In newly developed areas, afforestation, animal husbandry, and fishery should be carried out wherever possible, but in no case should grain production be neglected. Development can be focused on improving low- and medium-yield farmlands, reclaiming land, or transforming land.

The exploitation of new agricultural resources should be carried out on an appropriate scale. Newly cultivated land should not be distributed to individual peasants but should be contracted out to big peasant households or joint households. The method of running family farms is also advisable. Only when agricultural production proceeds on a certain scale, will it be possible to improve economic results and to use agricultural resources to produce more commodities.

Agricultural development relies first, on policies; second, on science and technology; and third, on investments. These "three reliances" also hold true for the exploitation of agricultural resources. But the present exploitation of agricultural resources is greatly different from that in the past. New methods should be explored for this new undertaking.

First, it is necessary to introduce a competitive mechanism, to carry out the contract system, and to allow those who develop land to enjoy the benefit one obtains from such development.

Second, it is necessary to raise funds at various levels, through various channels, and by various means. The various levels referred to here include the central, provincial, prefectural, and county authorities, as well as the masses. Various channels include all trades and undertakings inside and outside the province, in and out of the country. Various means refer to individual investments, joint investments, and compensatory trade with other provinces and localities.

Third, it is necessary to use funds step by step and in a planned way. Because funds are limited, they should not be used in all fields, but should instead be used in

localities that have great potential and can produce quick and good economic results. Work should proceed from the easy and the exploitation of agricultural resources should be carried out in a planned way.

Fourth, it is necessary to put technological and scientific investment in a very important position. In exploiting new agricultural resources, we should not rely on traditional farming methods, but should instead use advanced farming skills and apply scientific research achievements. Otherwise, no achievements will be made in the exploitation of agricultural resources, nor can better economic results be produced.

Heilongjiang Agricultural Bank's Open Lending Policy

Effects Discussed

40060550 Beijing JINGRONG SHIBAO in Chinese
19 Apr 89 pp 1, 2

[Article by reporters Hu Wannian 7579 5502 1628 and Wang Xiaoxin 3769 2556 2946: "Effects of the Open Agricultural Loan Policy—Chronicles of Heilongjiang Provincial Agricultural Bank's Adoption of the Open Agricultural Loan Policy"]

[Text] Beijing, Zhongnanhai, Huarentong—14 February 1989

As one of the 10 speakers to talk about their experiences at the symposium on the construction of an honest government system sponsored by the Central Committee's Reform of the Political System Research Center, Wang Xiang [3769 4382], president of the Heilongjiang Provincial Agricultural Bank, was received by Zhao Ziyang, Qiao Shi, Hu Qili and other Central Committee leaders and comrades.

The first prototype bank which the chairman of the Central Committee's Reform of the Political System Research Center, Bao Tong [7637 4592], reported to Zhao Ziyang and other leaders of the Central Committee was the Heilongjiang Provincial Agricultural Bank. He said, "The Heilongjiang Agricultural Bank was the first bank to operate under the open system. They let the public know to whom they have lent money, how much, and for what. They accept the people's supervision. It has been 3 years now, and in those 3 years, they managed to balance the loans they made and the payments they received, and they have even recovered 280 million yuan worth of old agricultural debts." Soon after the meeting, the reporters went "east of Shanhaiguan" to the fertile land of Heilongjiang Province to explore the fountainhead of China's open agricultural loan policy.

A Coerced Move

To banish unhealthy tendencies and corrupt phenomena, we must rely not only on positive education, moral

awakening, and administrative and legal measures, but more important, we need to bring things out into the open.

Whenever people ask Wang Xiang about the open agricultural loan policy, he would put on a sad smile and say, "It was a coerced move."

Since the 3d Plenary Session of the 11th Party Central Committee, the rural economy has been transformed from an one-sector economy into a diverse economy. Instead of serving the 60,000 production brigades, the provincial Agricultural Bank is now serving 3.8 million agricultural households, and it also has business transactions with 115,000 agricultural industrial-commercial enterprises, economic federations, and individual economies. Each day, it may handle as many as 276,000 deposit and lending transactions. Meanwhile, since the implementation of the contract management responsibility system, the masses of peasants have never been more enthusiastic. They buy fertilizers and seeds; they add carts and horses; they build houses and purchase their stock of merchandise and go into business. They all need funds urgently. Because there is an acute shortage of funds, as long as the peasants and the managers can get their hands on some money, they can still make a profit even if it costs them a little more. This has given some people a chance to exploit the loans to profit themselves. Within the Agricultural Bank, some workers have failed to stand up to the tests of reform and opening up and have succumbed to the temptations of money. They have usurped their power and exploited the loans to reap personal gains. Investigations of loans extended in 1984 and 1985 show that there were 5,396 cases of exploitation in the Agricultural Bank system province-wide. A total of 19.70 million yuan was involved and 1,723 bank employees were implicated. In the spring of 1985, while on his way to Wuchang County on official business, Chen Lei [7115 7191], then Heilongjiang Provincial Party Committee secretary and governor, came to Beidi Village of the Shuangqiaozi Manchurian Township, and he got out of his car to chat with the peasants. Everybody tried to get a word in, and their main problem was money. "Try the bank then." The peasants angrily replied, "Loans? Without yellow broth (soya-bean oil) and long-grain (rice,) who will lend you money?" Each year, during the spring sowing season, the peak of the loan season, letters from peasants complaining about bank employees exploiting loans for private gains would pile up in the news units and the higher level banks. It was a headache for the workers in the Heilongjiang Provincial Agricultural Bank who had come to regard it as an annual "ordeal."

Manager Wang Xiang in particular was deeply troubled. At a business meeting, he said in earnest that in Heilongjiang there are more than 1,600 primary-level units in the Agricultural Bank system which hires 27,000 workers, handles 12 billion yuan in funds, and has organs in every city and town throughout the province. To manage this contingent properly is the definite

responsibility of every leader; otherwise it can adversely affect the economic development of the province and drag down many cadres, and the bank leaders will not be able to face the party and the people.

And so the provincial Agricultural Bank gave top priority to the rectification of unhealthy tendencies and adopted a series of measures. They began by organizing a group to conduct a comprehensive investigation of all loan transactions over 1,000 yuan, all loans to individual industrial and commercial households and rural specialized households, and all trust loans made in 1984 and 1985. They examined 2.09 million cases valued at 3 billion yuan. During 1984-1985, 112 people were handed over to the judicial organ for prosecution, and 26 of them were convicted, and another 106 faced party or administrative discipline. From the consolidation of discipline to the rectification of improper tendencies to the investigation and prosecution of major and important cases, and from criticism and education to the administrative measures and to legal intervention, every move was carefully plotted, but the result was unsatisfactory. What can be done to radically solve this problem? Wang Xiang maintained that these corrupt phenomena cannot be eliminated just by internal rectification. Society's strength is needed to mobilize the masses of peasants and solicit their supervision. An old cadre put it best when he said relying on oneself is relying on one gun, one horse; relying on the people is to have the force of the whole army.

In 1986, just after New Year's celebration, the provincial Agricultural Bank made a far-reaching decision: it implemented the "three open" policy, which is making public the name of the borrower, the purpose of the loan, and the amount of the loan in every case. At that time, there were people inside and outside the bank who objected to the proposal. Should there be public disclosure? Can there be public disclosure? Does the bank have the courage to make public disclosure? At that time, bank leaders looked at the issue from three different perspectives. One, there was the tendency among cadres in the Agricultural Bank to exploit the bank loans to profit themselves, and if it was ignored, the consequences could be disastrous. Two, to prevent the workers from exploiting the bank loans, it was important to reinforce internal management, but in view of the existing system, it might be even more appropriate during the transition from the old system to the new to rally the people to supervise the banks and supplement the inadequate management system. Three, in examining the actual loans to individual households and so on, there were really no system or rules and regulations which prevented public disclosure. Wang Xiang was succinct when he said, in the final analysis, there are only two reasons why some people oppose public disclosure: One, they worry that public disclosure means more work, that it entails extra work with no extra pay. Two, openness will block the channel for those who are exploiting bank loans for private gain; it will pose a problem for those who practice fraud and abuse their power. He said that if

open management can put the agricultural loan policy and the Agricultural Bank's system and regulations in the hands of the people, and if it can shed light on how loan funds are given out and how they are being used, if it lets the people themselves make the evaluations, helps to limit personal power, and makes things fair and just, why not implement the system because it is the right thing to do? It was in the same year that the provincial bank also required that the Agricultural Bank at all levels and its 1,600 business units hang a sign "Fair and Honest, Guaranteed in Writing" on the wall. And it is not just for show; the sign serves as an "alarm bell."

"Show the Peasants Everything, Warts and All"

We can eliminate abuse of power and dereliction of duty if we rely on society's supervision and ease the antagonism between the borrowers and the Agricultural Bank.

In 1986, the Heilongjiang Provincial Agricultural Bank selected Fujin County's Xiangyangchuan Township to pilot its "three open" agricultural loan policy, hoping to gain some experience and then popularize the system gradually. But the experiment met with resistance at first. Some cadres said, if we give away what little "power" we have to the peasants, we will turn into mere paupers. Some peasants on the other hand were skeptical, but those within the Agricultural Bank were adamant. First, they compiled an economic record of all loans by household and by project. This record will serve as basis for future loan decisions. Then the primarily level lending units worked with the village cadres to check every borrower and verify the loan plans, and then listed the borrowers, the purposes of the loans, and the loan amounts for public inspection, soliciting public evaluation and supervision. Now the people are convinced: When they need emergency money now, they no longer enlist help from friends or seek out connections. Thereafter, the Agricultural Bank made another decision: Accept public participation in setting loan policy and loan rates instead of letting the loan officers speak for the people. This allows the peasants to protect their own legal interests in accordance with the interest rate policy. But the people had a suggestion too: Since lending is "disclosed, loan repayment should also be made public." The Agricultural Bank has accepted the people's suggestion and has regularly made public the names of people who have the ability to repay their loans but have not, as a way to "expose" them. Because of this step, more than 3 million of the 3.87 million yuan of the township's old debts have been recovered, and 15 of the 21 villages are debt-free. People say that this township is the fountainhead of the "three open" agricultural loan policy. Since then, the Agricultural Bank has also reviewed the experience in Zhaodong City's Liming Township where operations of the business office and the credit cooperative have been made public, and reports have also been sent to the people about the bank's experience in handling loans, and at the same time, they have brought Xiangyangchuan Township's experience to other parts of the province. Many sections

and departments have expanded the "three open" policy into a "five open" or even an "eight open" policy. Some city banks have turned their loan base over to the county banks, and the county banks have turned their base over to the township business offices and credit cooperatives, and the townships have handed theirs to the households—from the managers of the city banks and county banks to the supervisors of the business offices to the loan officers and the credit officers, none is keeping a penny of the reserve funds. No wonder some bank managers and county and town managers have said in good humor, we are "generals without an army."

In implementing the "three open" agricultural loan policy, Nehe County has gone one step further—they are disclosing the names of leaders who grant personal favors. A deputy head of a certain town pulled strings and secured a several-thousand-yuan loan for a friend. He knew he was in trouble and went to the borrower personally and recovered the entire loan. Wang Xiang supported the measure and said, this is a sound method; the whole province should do the same, and we shall see if anybody still dares to open the back door!

People have summed up seven merits of the open agricultural loan policy: One, it checks the unhealthy tendency of people exploiting bank loans to profit themselves; it has sharply curtailed the practices of opening the back door, pulling strings, and seeking personal favor. The loan funds are being put to much better use. In 1987, Heilongjiang spot checked 37.15 million loans of 1,000 yuan or more in 13 prefectures and cities, and only 3.4 percent were found to be questionable. In May of 1988, the province examined every loan extended by the 864 business offices under the jurisdiction of 31 cities and counties. The loans were worth a total of 570 million yuan, and 96 percent were deemed proper and met with the people's approval. The Agricultural Bank in Zhaodong City, which was one of the first to implement the "three open" policy, has made 890,000 loans worth a total of more than 92 million yuan over a 3-year period, and not a single loan was exploited for private gains. Two, the party and government organs are pleased. The head of Liming Township assessed the open agricultural loan policy in this way. Before the public disclosure, it was a situation of the "four unclear" (unclear where the loans went, unclear what the loan base was, unclear who took out the loans, and unclear who had paid back their loans,) the "three many's" (the village cadres and the bank's credit cooperatives have too much power, the people have many complaints, and too many loans are in arrears,) "two plenty's" (plenty of people exploit bank loans for private gains and plenty of people default on their loan,) and "one low" (low return on loan funds.) With the open loan policy, things are out in the open, and although there is no more strings to be pulled, input for agricultural purposes is now guaranteed, and the banks are doing a better job. Prior to 1985, 450,000 yuan's worth of old debts accumulated in Liming Township, and today, besides balancing the loans they make and the payments they receive each year, 60,000 yuan in

old debts have been recovered, and the township is delivering an additional 10 million jin of commodity grain each year. Three, the peasants are pacified. In Liming Township's Chunguan Village, village elder, Zhu Fubin [4281 4395 2430], came straight to the point when he said, since the 3d Plenary Session of the 11th Party Central Committee, the two things which have made us peasants the happiest are: First, land is contracted out to the peasants, and second, agricultural loans are made public. Four, the work load of the cadres in the Agricultural Bank is eased, and relationship with the peasants has "normalized." A supervisor in one of the bank's business offices was glad to get the load off his back and said, in the past, I was always overwhelmed during the peak season; the township chief wanted to see me, and relatives wanted to see me. I had no place to hide. Today, everything, every principle is handed over to the peasants; I am home free. Five, the peasants have become owners of the loan funds. The peasants now have the right to speak up and decide on whom to lend money to and whether the loan is put to good use. The manager of Yongjiu Village's credit station in Zhaodong City's Minzhu Township usurped his authority and lied about a payment for car repair in order to give his brother a 200-yuan loan. The people objected, and the loan was recalled immediately. Six, people who exploit the bank loans to profit themselves and pervert justice for a bribe are being punished. In the past, these people could do anything, and today, they are but gutter rats. The image of the Agricultural Bank has improved too: 70 percent of the county (city) banks throughout the province have been recognized as advanced units of the country's spiritual civilization, and many advanced groups and individuals who have the courage to uphold principle, who are eager to serve the peasants, have come forward. Seven, there is less administrative intervention, and the banks have greater autonomy over their operation and management. Since loans are made public, leaders in governments of all levels too have applauded the measure. They no longer have to meddle with bank business. Heilongjiang's agricultural loans have increased by more than 800-million-yuan over a 3-year period, and they have contributed to the development of the province's rural commodity economy.

"Of course, the merits of 'openness' are not limited to those mentioned above. We want to see more, the more the better," the workers in Heilongjiang's Agricultural Banks said in all sincerity.

The Effects of the "Three Open" Policy

Since being open has so many advantages, we should continue to extend and perfect the policy, establish a system of restraint, and make public everything that can be made public.

The implementation of the "three open" policy in agricultural loans has expanded the thoughts and broadened the outlook of those who work in Heilongjiang's Agricultural Bank. To quote the bank manager, we cannot just

focus on the "three open" policy; we have to keep an eye on every section of the bank and make public everything that can be made public.

In 1987, as the implementation of the "three open" policy became more widespread, something else began to bother Wang Xiang. The problem of overstaffed organizations and idle workers that plagued society as a whole had not spared the Agricultural Bank. Wang asked a manager of a regional bank, "If you owned this bank, how many workers would you hire?" "Half the existing number would suffice." "Then cut the staff by half. When the time comes, I will bring some people from the provincial bank and hold an on-the-spot-meeting here." The next day, the regional bank manager backed off, saying, "I would probably be fired before I could fire the others." It did not work, and so Wang tried some place else. That winter, a provincial meeting on the reform of the Agricultural Bank system was held in Yilan. Upon being informed that the Madanjiang City Bank's staff of 103 was in charge of only 8 county-level branch banks, Wang set a deadline requiring it to streamline the organization and allowed the public to meet and discuss the matter and decide whom to retain and whom to lay off. The organization was condensed by one-third and 50 percent of the personnel was trimmed, and the relatives and families of 13 leading cadres were sent to the primary level. The workers and cadres said, "When everything is publicly disclosed, there are no more dirty tricks."

If streamlining can be made public, why not open the post of bank manager to the public and bring the competitive mechanism into the banks? The provincial Agricultural Bank selected the Tongjiang City Agricultural Bank as the experimental point. Bank leaders reminded the work group which was being sent to Tongjiang City to make it public, make it a real election, and whoever wins the election should get the job. It turned out that the incumbent bank manager lost. The people have elected someone who knows the business, who knows how to manage the bank, who is well-supported, and who is honest. Under his leadership, the staff have worked hard and have completed a 3-year task in only one year and have turned loss into profit, and the bank has become a first class bank.

To make everything more open, Heilongjiang's Agricultural Bank has brought the workers' more sensitive and contended issues into the open. In the past, hiring workers and cadres was fairly "secretive," making it possible for some people to take the "back door." For this reason, the provincial Agricultural Bank has decided to make public the job requirements, number of openings, and test results, and whoever meets the requirements gets the job.

"If hiring can be made public, then promotion, a much disputed issue of great concern, should also be made public," Wang Xiang maintained a long time ago. And so the provincial Agricultural Bank has implemented this

idea when promoting cadres this year. First, the personnel department announced vacancies in the department chief and deputy chief and section chief positions. Then the staff and workers nominated a list of people by a secret ballot and made suggestions, and after deliberation, the names of the candidates were handed to the people for evaluation, and after comprehensive consideration, they promoted the people who should be promoted and so on. On this occasion, five deputy department-level cadres and some section-level cadres were promoted; there were no objections. People said, this promotion process is open, just, and fair.

On the issue of honest government, Heilongjiang's Agricultural Bank has concentrated on coordinating the open management system and insisted on checking the clients before granting loans, verifying details during the lending process, and reexamining the facts after the loan is made, and at the same time, the bank has also made the open supervision system more thorough and tried to perfect the supervisory organs. The bank's internal auditing departments at all levels are dedicating special effort to ensure the implementation of the open system. Furthermore, the bank has linked open management to the evaluation of primary-level banks and their profit retention and bonus distribution. By adopting these measures, the bank has put the provincial Agricultural Bank system's 1-billion-yuan loan funds each year under the supervision of the people, and any corrupt phenomenon is checked as soon as it emerges. Problems uncovered by the people are handled personally by the leaders, and all cases involving over 10,000 yuan or problems concerning county (city) level bank managers are handled by leading bank members at the provincial level. For the last 3 years, 306 cases of violation of law and discipline have been openly investigated and 226 people have been given legal, party, or administrative discipline. Meanwhile, the bank has given play to the democratic supervisory function of the worker's congress and has continued to perfect the open system.

This Is Not the Last of It

Heilongjiang's Agricultural Bank's open management may not be perfect, and it may have this or that problem, but it is important because it is the pathfinder.

At the close of the symposium on the construction of a honest government system convened by the Central Committee's Reform of the Political System Research Center, Wang Xiang hurried back to Heilongjiang, a land he knows well. He told the reporters candidly that Heilongjiang Provincial Agricultural Bank's open management system is new and is not yet implemented properly everywhere in the province. Only about 40 percent of the primary-level units are doing a good job, and 30 percent of the units are still experimenting with the system, and some branches and sections have done nothing yet. Some do not want the bother, and others fear "losing power." "It is difficult, but it has to be

done," Wang said firmly. At a recent meeting of the provincial Agricultural Bank managers, he reaffirmed the decision that agricultural loans must be handled in the open; it is not just formality or lip service. The open agricultural policy should be practiced, and openness should be regarded as an essential part of honest banking. While implementing the "three open" agricultural loan policy, the banks should also make monetary management, settlement management, financial management, and personnel and wage management more open.

By the time these reporters left Heilongjiang, we were convinced that Heilongjiang indeed is the fountainhead of the "three open" agricultural loan policy, and it will branch out into many small tributaries, and they will flow through the plains before draining into the sea.

Commentary on 'Important' Measure

40060550 Beijing JINGRONG SHIBAO in Chinese
19 Apr 89 p 1

[Commentary: "An Important Anticorruption Measure"]

[Text] Amid its anticorruption efforts, the Heilongjiang Provincial Agricultural Bank has decided to make its operations public and has perfected various systems. This not only has effectively curbed many unhealthy tendencies but has also helped the bank make better loan decisions and increased the return on loan funds. Their experience should be an example to others.

Since the country's reform and opening up, the masses of bank employees have worked conscientiously and have contributed to the development of the commodity economy. But a few have yielded to the temptation of money in the face of the flourishing commodity economy, and they have taken advantage of their positions to profit themselves. Some extend loans for "personal favors"; some extort kickbacks from the borrowers; some hold the loan money hostage, demanding to get in on certain economic activities to make money; some even resort to blackmail and extortion and violate law and discipline. They have seriously damaged the bank's reputation and have undermined economic development.

Banks are institutions handling financial businesses. They have ties which can not be severed to the development of the economy. The success or failure of their anticorruption effort not only concerns the banking sector but also affects the new order of the commodity economy. To strengthen the anticorruption effort, besides reinforcing ideological education among the staff and workers and enhancing their ability to resist the corrupt atmosphere, we must also establish a system of restraints and perfect the supervisory organs. Implementing an open system and placing the bank's operation under the supervision of the masses certainly

are effective measures. The bank's authority is entrusted to them by the people, and the banks should accept the supervision of the people. This is irrefutable. We are pleased that Heilongjiang's Agricultural Bank has taken the first step in this direction; banks in other areas should do the same.

We need strong leadership in the implementation of the open system and in perfecting the supervisory organs. Banks at all levels must give priority to the open system and regard it as fundamental to their anticorruption duty. The open system in fact limits and restrains personal power; it prevents some people from abusing their power. This of course will infringe upon the interests of some people and will run into opposition. Leaders at all levels must not be deterred; they must have the courage to break new ground. They must investigate the problems uncovered by the people thoroughly. They must set an example themselves and accept the supervision of the people. As long as the leaders are determined and are dedicated to this task, we will succeed.

Implementing the open system and formulating better systems are very difficult tasks. We cannot expect success overnight. We need to go through an exploration and perfection process. At the moment, we should start with tackling the problem which the people are most concerned about, which has been most talked about, and which has provoked the strongest reaction among the people—the exploitation of bank loans for private gains. The banks should make public their business rules and regulations as well as the outcome of actions they have taken. They must resolve this issue properly, accumulate experience, and then move on to other areas and solve other bank problems.

Peasant Net Income in 1988
40060602 Beijing JINGJI CANKAO in Chinese
25 Apr 89 p 2

[Text]

| Area | Per Capita Income (Yuan) |
|----------------|--------------------------|
| Shanghai | 1300.93 |
| Beijing | 1062.55 |
| Zhejiang | 902.36 |
| Tianjin | 891.16 |
| Guangdong | 808.70 |
| Jiangsu | 796.76 |
| Liaoning | 699.58 |
| Jilin | 627.54 |
| Fujian | 613.41 |
| Shandong | 583.74 |
| Hainan | 566.60 |
| Heilongjiang | 553.26 |
| Hebei | 546.62 |
| Hunan | 515.35 |
| Inner Mongolia | 499.79 |
| Hubei | 497.84 |
| Xinjiang | 496.49 |
| Qinghai | 492.82 |
| Jiangxi | 488.16 |
| Anhui | 485.53 |
| Ningxia | 472.48 |
| Sichuan | 448.85 |
| Shanxi | 438.73 |
| Yunnan | 427.72 |
| Guangxi | 424.23 |
| Shaanxi | 404.14 |
| Henan | 401.32 |
| Guizhou | 397.72 |
| Tibet | 374.41 |
| Gansu | 339.88 |

May 4th Literary Spirit Discussed

HK1305083089 Beijing WENYI BAO in Chinese
22, 29 Apr 89

[Article by Liu Zaifu 0491 0375 1788: "The Loss and Restoration of the Spirit of Enlightenment in 'May 4th' Literature"]

[22 Apr pp 3-4]

[Text] The Phenomenon: The Reversal of Historical Roles and the Loss of the Spirit of Enlightenment

This century, China's intellectuals have achieved two historic breakthroughs in the field of literature. The first occurred in the first half of the century when China's intellectuals finally shook off the fetters of the spirit of feudal literati-officialdom and began to accept from the West the various humanist ideas, including the theory of scientific socialism, which advocated democracy and science. In this way, the stylistic reform by which a system of vernacular writing replaced writing in classical language was completed. Thereby, the first page in the story of China's new literature was turned and the great project of a new literature with modern significance got under way. The second breakthrough has occurred in the last 10 years. In these 10 years, China's intellectuals have thrown off the restrictions of inflexible ideology, broken down the unitary creative model and theoretical structure and completed the change from a unified literary structure to a pluralist literary structure.

In the first historic breakthrough, China's intellectuals daringly and energetically changed the model of man and model of literature which had been inherited from thousands of years of tradition and achieved initial victory in an ideological revolution and a literary revolution. In this revolution, these intellectuals shouldered a solemn historical role, a role which required them to break with the culture of the their forebearers, to remold the Chinese people and to create a new role for Chinese culture.

In the first historic breakthrough, there were two major events which serve as landmarks.

The first was the decision (and the subsequent actions) to completely expose and criticize the evils of traditional, orthodox culture, represented by Confucius.

The second was the decision (and subsequent actions) to study everything from the West.

The significance of the first point, that is the decision to "smash the Confucian shop," was immense. This was because at that time the most sacred and heaviest "canopy" which enveloped China's intellectuals and the Chinese people was Confucius and his teachings. This "canopy," which touched and enclosed everything, was a nonreligious religion—the religion of culture. Although it did not have a canon, religious decrees or other religious paraphernalia, the original Confucian teachings

together with neo-Confucian development during the Sung and Ming dynasties, formed a doctrine characterized by a pseudo-religious system of Confucian classics and truly strangled the life and vigor of Chinese society. After China's feudal society having experienced the prosperity of the Tang dynasty over 1,000 years ago, there had not been any real development, the national spirit had continually withered and the people were plunged into intense suffering. The culture of Confucian orthodoxy represented by Confucius played a great role in this stagnation of China's society. Thus, the call to "smash the Confucian shop," the proclamation of the death of the sages, was like the proclamation in Western society that god was dead. This had a great effect on the fate of the Chinese people and and this initiated a basic change in the modes of thought and existence of the Chinese people. Previously Chinese people had thought and existed in accordance with the stipulations of Confucius. At this time, the stipulating entity died and the Chinese people entered a period when modes of thought and existence were stipulated by the self. As Yu Dafu said: "In the past people existed for their lord, existed for morality, existed for their parents. Now, astute people know how to exist for themselves."¹ If it had not been declared that the sage was dead and the changes subsequent to this declaration had not occurred, it is possible that even today the Chinese people would still be wandering in the darkness of rule by traditional rites and ceremony.

The decision to learn everything from the West was also extremely important. This decision was not one taken because of indignation and was not an artificial choice prompted by the sudden impulse of a few vanguard elements. Rather, it was a collective choice taken by China's intellectuals at an historical crossroad. Intellectuals at that time, regardless of whether they inclined towards socialism, or towards anarchism or utilitarianism, and apart from a small number of people (such as Lin Qinnan [2651 3830 0589], Gu Hongming [6581 7703 6900], Mei Guangdi [2734 0342 6611] and Zhang Shizhao [4545 1102 6856]), generally and jointly made the decision to study from the West. Before this, China's intellectuals generally did not willingly study from the West and were unwilling to give up the airs of the "heavenly court" or accept Western culture. Before "May 4th" and beginning with Li Zhi there had been generation after generation of intellectuals who had done everything they could in efforts to seek, from within our country's traditional culture, a mechanism by which to save Chinese culture and Chinese society. However, their efforts all finally came to naught. After the Opium War, although some of China's intellectuals gradually gave up the empty hope of seeking, from within Chinese culture, a weapon by which to save Chinese culture, and began to seek, from within the strange cultural system which Western theories comprised, a prescription for saving the country, they only proceeded by considering questions in terms of defence or tactics, by taking one aspect, and they had no option but to drape this in the clothing of the rationality of the ancient sages (this

included the efforts of people such as Kang Youwei). By the time of "May 4th," China's intellectuals finally realized that continuing to wander in the cultural system of their ancestors and seeking a prescription for saving the country from within was completely deceiving for the self and for others. Further they realized that learning from the West, in a half-shuttered way, through only one channel and on only one level, desiring to both save the face of their ancestors and give a new vitality to the motherland, was an impossible goal to achieve. The only option was to completely learn from the West on the political level, social structure level and spiritual quality level. Thus, they decided to leave the old house of tradition, leave behind the pressures of the Leifeng Pagoda and scientifically and directly face Western culture.

The passionate new literature movement which had decided to smash the Confucian shop and study Western culture involved four major figures: Chen Duxiu, Hu Shi, Lu Xun and Zhou Zuoren, and they all made their own special contribution in different ways:

Chen Duxiu: The spiritual model of breakthrough literature. (He advocated science and democracy and officially raised the flag of literary reform).

Hu Shi: The stylistic model of breakthrough literature (He made the transition from classical literature to vernacular literature).

Lu Xun and Zhou Zuoren: The models of breakthrough literature writers (They transformed the national character and created literature of the person).

These four major figures in the reform of literature and the outstanding writers who came a little later such as Guo Moruo, Mao Dun, Ye Shengtao, Bing Xin and Yu Dafu, jointly propelled forward a revolution of modern literature, a revolution in name and in reality. They stood at different positions, but they jointly shouldered the role of historical transformer and enlightener.

As the principal force in the literary reform movement, the intellectuals, in their role as enlighteners, on the one hand enlightened others and on the other hand affirmed themselves. That is, they established themselves as themselves in the new century, intellectuals with independent character, independent spirit and modern significance, and no longer were literati-officials adhering to the imperial court or some political structure. Thus, "May 4th" was also a period when intellectuals affirmed the self and advocated individuality. The basic point of this affirmation was that it cast aside the feudal literati-official historical role and the feudal literati-official cultural spirit, abandoned the traditional basic line of thought of the literati-officials—the line of thought which advocated "establishing one's teachings as a representative of the sages"—and thereby changed the idea in the cultural sphere of one being merely an appendage. This disposition had meant that intellectuals had lost

their position as being major spiritual entities and they had actually become cultural lackeys. Thus, the "May 4th" new literature movement was, as far as China's intellectuals were concerned, a revolutionary movement recreating their cultural character.

In his "Respectful Advice to Youth" Chen Duxiu called on young people to make six major decisions: "to be free and not be enslaved"; "to be progressive and not be conservative"; "to forge ahead and not to retreat"; "to be worldly and not to remain locked within the country"; "to achieve real benefit rather than to produce empty words"; and "to be scientific rather than to just have visions." The most basic of these points was the first one:

"Every person has the right to decide matters for themselves, and certainly no right to enslave others. They likewise certainly have no obligation to enslave themselves. Slavery is a term used to describe the process in ancient times whereby the dull and the weak were forcibly seized by the powerful and strong and thereby lost their rights to freedom.....Liberation is a term to describe the throwing off of the fetters of slavery and attaining the status of a free person who decides matters for himself. I decide for myself how to use my hands and feet in feeding and clothing myself, I decide for myself how to use my words in praise or damnation, I decide for myself what my heart should respect. I do not accept other people's interference and do not believe that I have the right to consider myself lord and enslave others. I believe that independent persons who take decisions for themselves is the highest aim. In all actions, all privileges and all convictions, one should only obey one's own mind and certainly not blindly and slavishly follow other people's ideas."

This article by Chen Duxiu can be seen as the first independent declaration of China's intellectuals in the 20th century. It declared that China's intellectuals would begin to struggle for independence and self-strengthening, that they were bidding farewell to the times of being slaves to culture and that they would mold a new age through their independent characters. Through the affirmation of self-value, the cultural attitudes of all the writers at that time was quite intense, positive and untrammelled. They all very confidently affirmed the spirit of self-independence and saw themselves as independent luminaries.

The writers at that time not only affirmed themselves as luminaries, but also affirmed that they could enlighten other people and arouse others. Thus, through their own works they pursued "enlightenism." The way they enlightened people did not mainly involve imparting knowledge, but enlightenment in terms of the innate spirit and intrinsic dignity of man. They proved the falseness of traditional values and they advocated science and democracy and other understandings of modern life, modern morality and modern culture. In the foreword he wrote for his "Self-Selection" published in 1933, Lu Xun said: "As to why I write fiction, I still

harbor the 'enlightenism' of 10 or more years ago. I believe that I must do things 'to live' and I also want to improve this life.... Thus, my materials are often taken from among the unfortunates of this abnormal society. The aim lies in revealing suffering and eliciting attention by which this suffering can be removed or cured." Lu Xun's was truly stressing that he wanted to break down that iron house which had continued for thousands of years so as to arouse his compatriots who were sound asleep within the house. In the novels *The True Story of Ah Q* and *Hometown* the characters Ah Q and Run Tu were the tragic, numbed souls which were asleep. They had no knowledge of their own misfortune and were even less aware of their own "failure to strive." They were the dead souls of China. Without the enlightenment of loud shouting, it would not be possible to awaken these dead souls. The spirit of the various Ah Q was too far from the cultural consciousness of modern man and completely divorced from the spirit of the modern age. In addition to Lu Xun, the problem novels, social dramas and village novels which were popular at the time and even the art for life of the Literary Study Society all had the historic task of ideological enlightenment.

The "May 4th" writers as well as the intellectuals of the same generation, as the first to accept the humanist spirit of the West, truly played a vanguard role in various respects. However, this vanguard position and enlightening role became, within a short period, gradually weakened, devitalized and even negated. This led to a reversal of historical roles. That is, the intellectuals, who had been the first to become aware and who were enlightening others, became the target for enlightenment and for transformation. At the same time, the peasants who had originally been "pitied for their misfortune" and "excused their failure to strive" became the transforming entity and were the main entity in the "reeducation" of the intellectuals. In this process of historic reversal the spirit of enlightenment and consciousness of self as represented by the intellectuals were gradually lost.

After the beginning of the 1940's, works with a powerful enlightening effect, such as *The True Story of Ah Q*, which used a modern person's viewpoint in viewing the ignorance and backwardness of the peasants, almost completely disappeared. They were replaced by works by people such as Zhao Shuli and others which eulogized the peasant revolution. Works which tried to sustain the basic line of thought of the "May 4th" works and allow the intellectuals to maintain their position as the leading force found themselves in increasingly difficult straits. Ding Ling's novel *In the Hospital*, which was criticized after it was published in 1942, is a model example of this. The criticism of this book was a major turning point. It indicated that the literary age where intellectuals held the leading position was finished as a historical stage. This novel was a plea for the intellectuals who had just reached Yenan, and expressed the hope that intellectuals could be respected and understood. This line of thought

was an extension of the basic line of thought of "May 4th" literature. However the fine hopes of the book, like those of Lu Ping, the leading character in the novel, were ridiculed and stifled.

After *Talks at the Yenan Forum on Literature and Art* was published, not only did works like *In the Hospital* disappear, but all works which directly depicted images of intellectuals vanished from sight. Even though some characters with intellectual characteristic did appear, they were always ordinary cadres or village cadres. For example, in *Three Friends* by Wei Junyi [7279 0689 1355] the intellectual is half-cadre, half-intellectual, but the line of thought had essentially changed since "May 4th"—and the intellectuals had begun to belittle themselves. "I," who is the main character in this novel, is an intellectual and she has three friends. One is purely a peasant (Liu Jinkuan), one is a village intellectual-cadre (Luo Gan) and one is an enlightened member of the gentry (Huang Zonggu). In the campaigns to reduce rent and reduce interest, "I" comes to know these three characters representing different classes. The enlightened member of the gentry is a two-faced toady and is unreliable. When speaking, the intellectual Luo Gan likes to talk in a roundabout way and is not straightforward. It is only Liu Jinkuan who is pure, brave and stresses loyalty. Thus, the intellectual "I" finally chooses from among her three friends, Liu Jinkuan, who can really be a friend. This novel was written in 1946 and we can see it as a literary coordinate. It informed people that between intellectuals and the peasants, the positions of the educators and the educated had been completely reversed and that the line of thought in "May 4th" novels had been completely changed. This novel showed that a major reversal in the spiritual status of intellectuals and peasants had already begun to occur.

After liberation this line of thought became, under the new social conditions, a legally-stipulated line of thought for literary works. Literary works could only praise workers and peasants, as otherwise they would be smearing the laboring people. Intellectuals could only be criticized, as to do otherwise would be prettifying intellectuals. Very few of the literary works after liberation had intellectuals as the main characters, and in those works which had workers, peasants and soldiers as main characters, the intellectuals were inevitably a target to be transformed. The image of intellectuals which appeared in novels, films and plays was that of dissident elements. Some were political blunderers showing that intellectuals were ideologically conservative. But not only this, they were also shown to be incompetent on the technical level, with all technical reforms which depended on intellectuals going wrong. The only correct mass line was to rely on the workers. In brief, in these works the position of the intellectuals as the main enlightening force had been completely lost. And these works actually were produced by the hands of intellectuals. The intellectuals, in order to prove their own value, had to write, but what they wrote had to defame themselves—only by demonstrating that they themselves had no value could

they be published (and thereby be recognized by external forces as having value). The writers at that time were stuck in this tragic circle.

At this time, of the authors who had been writing in the 1920's and the 1930's, some, like Shen Congwen, had become silent and had left the literature and arts world. Some, like Mao Dun, stopped writing fiction and only wrote criticism. Some others, like Ba Jin and Cao Yu, continued to put efforts into writing, but did not produce any good works. Some did produce some good works, but met covert or overt criticism and censure. Lao She's *Teahouse* is an example of such a work, as it was considered to lack a revolutionary red thread. *Under the Red Flag* was only started as, when someone ordered that there needed to be "solid writing for 13 years" he laid the pen down. A greater number of writers had no option but to use their works "to establish their teachings as representatives of the sages" and became propaganda tools for policies. The writers universally covered up the self and lost the self. Even if they had wanted to maintain the self, it would have been very difficult to achieve.

The reason such abnormal phenomenon occurred among intellectuals and that they negated themselves through their own works was that they had no option but to accept the view of intellectuals which had been widely established in society. From 1939 to 1942 Mao Zedong published several articles on the relationship between intellectuals and workers and peasants. These articles pointed out that the masses of workers, peasants and soldiers were the main force of the revolution. Whether or not they joined with the peasants was the final demarcation line as to whether intellectual elements were revolutionary, "nonrevolutionary or antirevolutionary." In "Talks at the Yenan Forum on Literature and Art" he put forward two conditions for intellectuals. The first was that intellectuals would belong to the "petit bourgeois" category. The second was that, noting that in the innermost souls of petit bourgeois intellectuals there lay a spiritual kingdom, he stated that if they was not transformed, there was a danger of the party perishing and the country perishing. After the intellectuals accepted these conditions, there occurred the feeling of political guilt. After liberation, these two conditions were further developed. Intellectuals were further classified in the bourgeois category. Also, due to the putting forward of the call to "foster proletarian ideology and eliminate bourgeois ideology," the transformation of intellectuals gradually changed in nature from just calls to the resolution of the problem through political criticism campaigns. After the political campaigns to criticize the Yu Pingbo-Hu Feng Clique and the "rightists," the intellectuals' sense of guilt was heightened. Also, in the eyes of society, intellectuals had already lost their positive image. By the time of the Cultural Revolution, after the judgement that "schools were ruled by bourgeois intellectuals" was put forward, intellectuals became an alien force for the working class. And, following the major reversal in society's view of intellectuals,

the intellectuals themselves lost increasing faith in themselves, and increasingly lost their independent spirit and independent character. Not only were they "made to keep their tails between their legs" but they were continually criticizing themselves, negating themselves, enslaving themselves and trampling on themselves. Under the banner of "opening the heart," they emptied their souls and purified themselves of all "horizontal" relationships. All that was left was the relationship between oneself and the leader. Life was to demonstrate the greatness of the gods and the insignificance of oneself. It was felt that the significance of one's life lay in transforming oneself. The more thorough the transformation, and the more completely one trampled on oneself, the greater the sense of security and the greater the joy. Society's abnormal understanding of intellectuals and this abnormal psychology of the intellectuals meant that the value of the intellectuals declined to virtually nothing, or even to a negative figure—they were not people, they were "monsters and demons." At this time, even such a great writer as Ba Jin shouted the slogan "Bring down Ba Jin." To sum up, intellectuals completely lost their feelings of self-existence and self-definition and, in such an social and psychological atmosphere, the writers' "enlightenment" became a nightmare of the past.

The Reasons: The Shift in the Focus of Social Movements and the Infertility of the Actual Soil

Not long after the "May 4th" movement, why was it that intellectuals continually engaged in criticism of themselves? Why did they lose the spirit of enlightenment and why did the reversal of historic roles with the peasants occur?

On the reasons for this, some of our scholars have already put forward some penetrating theses. The most famous of these is that put forward by Li Zehou [2621 3419 0624], who holds that the "May 4th" movement had a dual aim of enlightenment and saving the country, and that because the historic task of saving the nation was particularly urgent, the task of enlightenment was squeezed out. The task of enlightenment was to arouse the Chinese people's consciousness of themselves as people, their consciousness of themselves as individuals and their self-respect. It was inevitable that the importance of this task would be watered down and covered when it was confronted with the crisis of saving the nation. This is certainly a basic reason.

In the middle of the 1920's, when some of China's intellectuals were beginning to give up the self, the force they faced was not the force of power, but a demand within themselves. That time was an extremely special time. It was after the 1911 Revolution, Sun Yat-sen was no longer president and Yuan Shi-kai was dead. Another dispute had arisen between Li Yuanhong and Duan Qirui, and there was war among the warlords. Authority had been lost and consequently the whole country was "out of control." In this situation where central power was lax, the intellectuals had even more freedom of

choice, and they could have developed individuality to the extreme. However, at that time, the intellectuals faced another force, the crisis of the continued existence of the national group. After "May 4th," the demands of developing individuality and worries about the continued existence of the nation became glued together, putting the intensely patriotic intellectuals in a dilemma. However, the crisis of the continued existence of the national group eventually formed the strongest inspiration. After World War I, the level of development of the various countries of the world was very uneven and the Eastern nations were still in dire straits. This was especially so of the Chinese nation. On the one hand the imperialist great powers had not, even though China was one of the "victorious countries," returned its occupied territory and in their hearts they still were prejudiced against China. On the other hand, after 1923 and 1924, the warlords within the country were engaged in bitter war, the people were in poverty and this brought great calamity to the Chinese people. Faced with an acute crisis of the continued existence of the nation, writers felt that it would be difficult to completely combine their own demand for individual liberation and the demand to liberate the nation. However, the demand to liberate the nation was extremely pressing and was an urgent and serious precondition and all individual demands had to be subordinated to this precondition. Thus, they felt that they should give up the internal demands of the individual and contribute their individuality to the demands of the national group. At the end of November 1925, Guo Moruo said: "It can be said that in the last 2 years, my thoughts, my life and my style have completely changed. Before, I respected individuality and admired free people but in the last 2 years, the declining standards of this tragic society have affected me somewhat. I have felt that in an age when the majority of people have lost their freedom and lost their individuality without having any control over the situation, it seems very presumptuous for a few people to advocate individuality and freedom."² Faced with the extreme crisis of continued existence of the national group, some writers felt a acute contradiction between the demands of individuality and the demands of the times, and thus felt that the advocacy of individuality was "presumptuous" in nature. Thus, they had no choice but to take the option by which they gave up the road of the self and subordinated individuality to the interests of the national group so as to expunge a feeling of guilt and unhappiness. This was the mentality of some of the writers who first declared their rejection of the individuality of "May 4th."

Under the pressure of the crisis of the continued existence of the national group, the focus of social movements before and after "May 4th" changed continually. These changes directly affected the historical positions and roles of the intellectuals and peasants.

During the "May 4th" period, intellectuals were indisputably in the position of enlighteners, and this situation was inseparable from the fact that when the "May 4th" movement began, its real focus was a revolution on the

cultural level, not political revolution. A primary cause of the new cultural movement of "May 4th" was the reflection which occurred subsequent to the failure of the 1911 Revolution. After the 1911 Revolution there occurred events such as Yuan Shikai's declaration of himself as emperor, the restoration by Zhang Xun, the fighting between the warlords and so on. After the 1911 Revolution which people had placed all their hopes in, apart from the fact that people had cut off their queues, China was just like before. This inevitably gave great stimulation to the intellectuals. At this time, they recognized that saving the nation could not be achieved simply through state-saving political reform, but also required enlightening cultural reform. Thus, the "May 4th" pioneers started the NEW YOUTH magazine and, through literature, initiated an ideological revolution and a cultural revolution. In the enlightening cultural revolution, the intellectuals who controlled culture were naturally the main element of the cultural revolution and were also naturally the main element of the enlighteners. In this cultural revolution it was perfectly justifiable for the intellectuals to engage in the enlightening of the many Ah Q and Run Tu.

However, because of the absolute darkness of the social reality and the great demands of the task of saving the nation, these intellectuals who were engaging in this cultural revolution discovered that they could not just engage in cultural revolution and thus the focus of social movements changed to political revolution. After "May 4th," the CPC appeared and the worker and peasant mass movements which occurred under its leadership, the "May 30th" movement and the Northern Expeditionary war were all indicators that the focus of social movements had changed to political revolution. And, in the political revolution, there was no need for complex ideological enlightenment. The revolution was no polite afternoon tea or artistic activity. The political revolution caused people to become much more simple and the political revolution indeed required simplicity. It was a mass movement of huge scale. It required simple means of arousal, it needed calls which could quickly induce revolutionary fervor, and it had no need for transcendent abstract principles of enlightenment. On the first anniversary of "May 4th," Luo Jialun [5012 1367 0243], in the self-critical "The Successes and Failures of Our Student Movement Over the Last Year and The Policies We Should Adopt in Future," held that over the previous year, the enlightenment movement had ignored the characteristics of mass movements. He said: "The subject of a mass movement should be simple... In a movement, if we require people to think around too many corners, it will immediately fail. The reason the 1911 Revolution was able to achieve swift success and the reason people were willing to die for it are also seen in this. As far as I am aware, at that time, people's concept of revolution was very simple."³ The political revolution did not require the complexities of the cultural revolution and this special demand naturally reduced the role of the intellectuals. In another respect, the attention of history has no option but to switch to the

main force constituting the political movement, and the peasants were the main force of the Chinese democratic revolution. Thus, the reversal of historical major players became a possibility. On the eve of 1927, Zhou Zuoren emotionally sighed: "teaching is of no use." At the same time Lu Xun was also sighing in a poem that Sun Chuanfang could not be driven off, and had a deep feeling that intellectuals had no power. This feeling of "helplessness" on the one hand was due to the fact that, after the social movement changed into a political revolution, these people became powerless, and on the other hand they recognized that in a political movement, those with the greatest strength in the society were indeed the basic worker and peasant forces. In 1939, Mao Zedong put forward the idea that the workers and peasants were the main force of the revolution and that if the intellectuals did not join with the main force, nothing could be achieved. Thus this idea was accepted by the intellectuals. This was connected with the earlier feeling of powerlessness experienced by the intellectuals and there was an objective inevitability about it. However, after liberation, when the focus of China's social movement shifted from political revolution to social construction, intellectuals were still in the subordinate position they were in during the political revolution, the cultural demands of the intellectuals still had to be subordinated to class struggle and they still had no option but to continue as political appendages. Therefore, they were required to transform themselves even more harshly. This inevitably produced more historic mistakes. These mistakes were the sorts of mistakes where, even after recognizing them following a major historic displacement, one "remains firm" in moving along the original track.

2. Two Mistakes

In the middle of the 1920's, when the political revolution had become acute, two mistaken assessments resulted: The first was the negation of the "May 4th" enlightenment literature; and the second was, after affirming the political role of the peasants, the excessively high appraisal of the peasants' cultural awareness.

When the focus of the social movement gradually changed towards political revolution, our country's literary circles also began to brew a new literary movement—the revolutionary literature movement. Beginning in the 1920's, Deng Zhongxia and Yun Daiying began criticizing the trends of new literature and at the same time criticized the writers of new literature. Regardless of whether it was the Literary Study Society advocating "art for life" or the Creation Society advocating "art for art's sake," they were all negated. In the article "The Problem of a United Front in the Ideological Circles" Deng Zhongxia said: "Returning now to the socialized writers. Unfortunately this group does not have a sound representative. Today the Chinese literary and art circles very arrogantly flaunt such slogans of 'art for art's sake', 'neoromanticism', 'literature is the aim', 'literature comes from within and will not be enslaved by the outside world', 'literature is the action accomplished

through inaction'.... Some quite affably proclaim that they are 'seeking art for life.' Their lives are individual lives (the lives of young gentlemen and ladies), not social lives. Put briefly, today China's literary and art circles are rotten to the core."⁴ Before this, the criticism of the new literature movement had come from the conservative Chinese cultural quintessence camp (such as the Jiayin group and the Xueheng group). But at this time the criticism came from the revolutionary camp. After this, Cheng Fangwu [2052 0119 0710] who had engaged in self-negation, wrote "From Literary Revolution to Revolutionary Literature" and joined the ranks of those criticizing the "May 4th" enlightenment literature.

Negation of the enlightening role of "May 4th" new literature was also strongly reflected in the negation of the basic understanding of the peasants by the "May 4th" writers. In 1928, the revolutionary literature camp began to directly attack Lu Xun, holding the Lu Xun's assessment of the Chinese peasants was outdated, and noting that Chinese peasants had already ended their Ah Q period. The most typical and most famous article reflecting this view was Qian Xingcun's [6929 2622 6722] "The Extinct Age of Ah Q." In this article Qian Xingcun said: "As to today's peasants of China, first, they are not as naive as they were in the Ah Q age. The majority are organized very tightly and have quite a knowledge of politics. Second, the revolutionary nature of China's peasants has been fully manifested. They have resisted the landlords, participated in the revolution and recently have manifested the original Baudon form. They have actively engaged in revolution and certainly have none of the subservience to despotic gentry so characteristic of Ah Q. The knowledge of Chinese peasants is no longer as limited and simple as that of the peasants in Ah Q's time. They are not baffled Ah Q simpletons. They have a sense and they have goals. They are not venting their spleen but, rather, are engaged in political struggle. the peasants of today are not the peasants of the 1911 Revolution period. Now the interest of the peasants has shifted from themselves to the road of political revolution." On the basis of these ideas, Qian Xingcun declared: "The Ah Q age is long dead! The Ah Q age died very long ago!"⁵ Qian Xingcun's article is another major marker as it reflected that a qualitative change had occurred in intellectuals' basic understanding of the peasants. The declaration that the Ah Q age was dead was actually a subjective declaration that the "May 4th" age of enlightenment of the peasants was already dead, and that the age of political revolution in which the peasants were revered, had begun. As Qian Xingcun had made this assessment, he also made extremely harsh demands of Lu Xun, one of the major figures of the "May 4th" new literature movement and one of the major representatives of the intellectuals of the "May 4th" period. He judged that Lu Xun was "from beginning to end, an individualist" and that his works exposed "the rotten disposition characteristic of the petit bourgeois intellectuals." "They only contained 'call'-type revolution and 'hesitation'-type revolution." Thus, he urged Lu Xun to "awake to his errors" and to cast

away the extinct age of Ah Q. Today, we are, of course, not blaming Qian Xingcun for his "absurdity," but using his article as a mirror. This mirror allows us to understand that after the focus of the social movement shifted to political revolution and the left-wing revolutionary writers completely negated the "calls" for enlightenment of the "May 4th" era, the change of roles between the intellectuals and the peasants was already inevitable.

In this process, the discussion about the popularizing of literature and art involved more intense criticism of the "May 4th" literary movement and even criticism of the revolutionary literature movement. Also, for the first time the class designation of "petit bourgeois writers" was assigned to the "May 4th" new literature writers, there was harsh criticism that the writers had not "studied from the masses" and instead had been "educating the masses" and there was clear criticism that the "May 4th" new literature writers had played an erroneous historical role. In an article "Who are 'We'?" Qu Qiubai when talking about the reasons for it not being possible to achieve popularization of literature and art, said: "Why should we go on in this way? In the last 2 or 3 years nothing has been achieved except empty talk! The major reason for this is of course that the proletarian literature movement has been unable to transcend the 'literary society' stage of the intellectuals. It is still just a little group of intellectuals and not a mass movement. These revolutionary intellectuals—petit bourgeoisie—have not devoted themselves to going among the ranks of the working class. They still believe that they are the teachers of the masses and basically reject the idea of 'learning from the masses.' Thus, while they voice support for 'popularization,' they in fact oppose 'popularization' and resist 'popularization.' This article by He Dabai reveals this attitude of the intellectuals and it allows us to discover the deep-going obstacle to the 'popularization'—that is, that the revolutionary literature writers and the 'literary youth' generally stand outside of the masses and try to teach the masses by standing above them."⁶ These words of Qu Qiubai are a very clear-cut exposition of the nature of "the popularization of literature and art." From this, we can see that the those who advocated the popularization of literature and art and the "May 4th" enlighteners had something in common. That is, they both advocated that literature and art should be oriented towards the masses. However, they had precisely opposite ideas on how it should be oriented towards the masses. Qu Qiubai advocated "popularization" while the "May 4th" enlighteners proposed "changing the masses" (enlightenment was changing the masses). Those who advocated "changing the masses" advocated standing on the new high plane of culture of the times and using the new modern cultural essence to enlighten and influence the masses. Those who advocated "popularization" felt that there was no reason for intellectuals to be the teachers of the masses and that they should popularize their works so as to accord with the tastes and demands of the masses. This latter idea naturally required the writers to entirely give

up their spirit of enlightenment. Thus, it can be said that the result of the discussions about popularization of literature and art in the 1930's was the further loss of the "May 4th" spirit of enlightenment. However, what should be explained is that those who proposed the "popularization of literature and art" considered that the major problem in the popularization of literature and art was the language problem and the use of ancient forms (that is, the problem of popularizing literature and art and the problem of being divorced from the masses). They did not consider that the major problem was people's stand or ideological attachments. And, naturally, they did not think that there was any need to thoroughly transform their own stand and ideological attachments. The topic of "transformation" was first officially put forward by Mao Zedong in his "Talks." Thus, after liberation, when literary historians were assessing the calls to "popularize literature and art" in the 1930's, their major criticism was that these calls did not understand the crux which was ideological transformation. Those who advocated the popularization of literature and art were not predestined to have to engage in self-negation. A majority of writers at that time did not realize that they had to thoroughly transform the new century selves which had formed during "May 4th" and only realized that, on the language level and in other literary forms, it was necessary to do some readjustment so as to orient it to the masses. The realization that intellectuals had to thoroughly transform themselves in terms of their stand and their world view only occurred in 1942.

However, the above-mentioned political factors (the need to save the nation from extinction and the shift in the focus of social movements) are still unable to explain the phenomenon whereby, in the middle of the 1920's after the "May 4th" literary revolution had ebbed, writers widely sunk into the deep depression of spiritual crisis. At that time, Lu Xun in his introduction to "Grave" declared that he wanted to take everything from the past and "bury it in a grave." This feeling of parting with the past was very widespread and Lu Xun had described it. At the time, there were people being demobilized, people fleeing, people becoming dispirited and people defecting.⁷ Thus, he felt exceedingly lonely. "I am a soldier in between, bearing my halberd, alone and irresolute." Further, Mao Dun in the introduction to *Great Series of China's New Literature—First Collection of Fiction* also discovered that about the time of "May 30" there was widespread depression felt among the literary and art circles. He said: "Up to the eve of 'May 30,' an atmosphere of depression and vacillation dominated the entire literary scene. Externally, there was an attitude of forced smiles as well as the seeking of hedonism and self-inebriation, but internally, there was the same depression and vacillation." At that time, there actually did appear a widespread depression and vacillation, and the mood was one of new seeking for a road. If, in the high tide of "May 4th" we see the innocence, zeal and fullness of illusion of the Guo Moruo-style and hurricane-style screaming poets and lake poets (such as

Ying Xiuren and Pan Mohua), then by this time, what we see is the loneliness and vascillation of Lu Xun and disappearance of the innocent and beautiful love and dreams of the lake poets. The innocence and the zeal had been replaced by the melancholy tolling of the Chenzhong Society. In the works of the Chenzhong Society, we feel that the feeling of hopelessness of the time had already begun, and enveloped in the poets' hearts was an unnamed depression and grief. In his first report of 1925, Chen Xianghe said that he particularly liked the article "Lonely Nietzsche" written by Young Miss Nietzsche, but that as it was too expensive, he did not buy it. Thus, as he was passing through the small alleys at the beach, he was constantly thinking about "Lonely Nietzsche." This has symbolic significance. That manic Nietzsche of "May 4th" who overturned everything and had no misgivings, had by this time changed into "lonely Nietzsche." Those poets who had been permeated by Nietzsche's Dionysian spirit at this time found that their hearts were enveloped in a grief which was difficult to explain. Chen Xianghe explained that his friends had criticized him by saying that "his innocence and consciousness are dead." He himself said: "My life of late has been terrible. What we now most strongly oppose is sentimentalism, and now have a desire to get a new hold on ourselves. Sometimes, at night I will cry till dawn. The reason? Not even I know. But when day comes, there is a great change in my heart. It is as if the events of the previous night were in another world and it was not me involved."⁸ The mental moods Chen Xianghe described in his reports were very common feelings at that time. The intellectuals at that time had truly lost the innocence and zeal of the high tide of "May 4th" and were newly surrounded by sentimentalism, even to where they were weary of the world and they did not even recognize themselves. The poets of the Chenzhong Society had not at that time faced the question of participating in the revolution and had not faced the difficult question of choosing Marxism. Yet, there was still this intense depression.

The Infertility of the Actual Earth

We wish, from the major phenomenon, to pose a question. This is, during the period of the emergence and development of the "May 4th" new literature movement (approximately 1915 to 1923), when the crisis of continued national existence was equally pressing, why was it that in this situation, the attitude of writers was so positive and zealous and they boldly advocated individuality, but yet by the middle of the 1920's there had been produced a feeling of widespread depression? Also, in other battles to assure the continued existence and liberation of the nation (like France in World War II), at the same time as advocating nationalism not only did they not reject the spirit of individualism and independence of the self, but actually publicized the national spirit and strengthened the power of the nation on the basis of individuality and the self. Why was it only in our country that it is felt that the independent spirit of the individual had to be given up so as to change the

dangerous situation which threatened the continued existence of the nation? Could the widespread depression among writers in the middle of the 1920's have had other more intrinsic and more important reasons?

Here, we should affirmatively respond that that the crisis of the continued existence of the national group was not the absolute reason why intellectuals abandoned their spirit of individuality and spirit of enlightenment. In the crisis of the continued existence of the nation, actually individuality could still have developed. However, here the crux of the problem is that after the "May 4th" movement, there was no real earth provided for the continued growth and development of intellectuals' individuality. The "May 4th" movement, as a turning point in China's history, indicated a major change in China's society. However, this change was not very normal as it was a change from feudal society to modern society and it did not produce strong free professional with the attendant base of modern politics, economics and culture. The final stopping point of the "May 4th" new cultural movement was completely above the superstructure. That is, it stopped above a political struggle to obtain political power and to change the political structure. The task of social reform includes economic reform and requires changing the economic form through wresting political power. However, after "May 4th," the small-scale agricultural economic base, upon which traditional culture relied, saw no change and no commodity economy order involving free competition was formed. Ah Q's village Weizhuang was still the same place with small-scale producers, a small-scale natural economy and with small-scale producer concepts firmly entrenched. The Weizhuang-type economic structure naturally excluded the spirit of scientific democracy and naturally excluded individualism and the independent spirit of the intellectuals.

In notes he kept while preparing to write *Das Kapital*, Marx made the following description of the basic forms in the development of human society:

"Man's relations of dependence (initially produced completely naturally) are the most primary social form. In this form, man's production capacity only develops in a narrow scope and in an isolated place. The independence of man based on material reliance is the second major form. It is only under this form that a widespread social system of material exchange, overall relationships, many-sided demand and overall capacity is formed. The third stage is the establishment of free individualism on the basis of the overall development of the individual, and the joint capacity for social production which forms social wealth. The second stage creates conditions for the third stage."⁹

Marx divided the social forms of human activity into three basic forms: The first is the natural form stage in which there are "man's relations of dependence"; the second is the "independence of man" stage in which there is widespread material exchange in society; the

third is the combination stage where free individualism is established on the basis of the overall development of the individual and a high degree of development of the social productive forces. The second stage is a preparation for the third stage and is the social link between the first stage and the third stage. In the first stage, there is mutual reliance between people on a natural relationship basis. This is the society which has the group as its unit, the individual is subordinated to the community and there is no independence of man. The feudal, patriarchal society existing in our country before "May 4th" can be seen as this type of society. This is essentially an agricultural social form based on the natural economy. The third stage is the ideal social form, the socialist or communist society described by Marx in which there is a complete realization of individuality, that is, an association of free persons. The second form is a commercial society in which there is widespread material exchange. This society has the individual as a unit and people are equal under the principles of material exchange. Society provides each person with an opportunity to freely compete and this breaks the subordinate relationship of individuals to the group and provides people with the possibility of independence. Based on this description by Marx we can discover that after the "May 4th" movement criticized the old social system in which there was "relations of dependence between people," there was a direct change in China's society to modern society and there was then a rapid transition to socialist society (directly moving towards the goal of an association of free men). In between, the stage of commodity economy development based on material exchange had been missed. That is, they had missed the social form in which the independence of persons became a possibility. As the full development stage of this social form had been passed over, there was no soil in which to base the independence of people and there was thus no way for it to develop. The individuality, self-awareness and independent spirit which were awakened during the "May 4th" period had no soil in which to grow, because they lacked this relatively strong material basis (the social form in which there is commodity exchange through free competition). Thus, the tragic fate of the spirit of enlightenment could not have been avoided.

Without the corresponding material relationships, there could not be strong individuality and there could not be powerful intellectual independence. The tragedy by which the individuality of the two intellectuals Zijun and Juansheng is dashed in Lu Xun's *Regret for the Past* is a tragedy of them not being able to find conditions in which their individuality could be fostered and grow. During the "May 4th" period, all of the factions esteemed Ibsen and called for the strong solitary individuality which Ibsen wrote about. However, finally they themselves began to feel that their calls were hollow. This was because the reality could not provide the conditions for growth of Ibsen-type individuality. It was the same situation in Ibsen's time, as at the time Norway could produce an Ibsen, while Germany could not. This point was also noted by Engels in a letter to (?Bauer

Ernst). He said: "Norway's peasants have never gone through slavery. This fact—and it is the same in Castilia—gives a completely different background to the overall development of Norway. Norway's petit bourgeoisies are the children of free peasants, and thus as compared to Germany's pitiful urban petit bourgeoisie, they are true people. In the same way, the women among Norway's petit bourgeoisie are of a far higher status than those among the German urban petit bourgeoisie. Regardless of what shortcomings Ibsen's plays have, they reflect a world, a world which while still petit bourgeois is a world which is far higher than Germany. The people in that world have their own character, have the capacity to innovate and can act independently, even though, from a foreigner's viewpoint, this seems a bit strange."¹⁰ These words of Engels show that as Norway's middle and petit bourgeoisie developed from free peasants, real earth was formed in which people's independence, based on material reliance relationships, could develop. It was only thus that it could produce Ibsen. Meanwhile, at that time German society was still a society crammed with peasants and urban petit bourgeoisie and it could not produce a person of the strong individuality which was seen in Ibsen. After the "May 4th" movement, our country also had the same problem which existed in Germany at that time.

Marx, proceeding from the angle of the overall process of mankind's development and Engels, proceeding from the angle of specific social conditions in different countries, jointly explained the point that the development of modern individuality is closely related with the conditions provided by society. The modern spirits of our country's new intellectuals lack the soil for full growth and development and lack a natural process for growth. Thus, it is very weak. The reason our country's modern intellectuals could stand up in "May 4th" and form a literary and ideological force was mainly due to reliance on the cultural and ideological trends from the West. However, as they lacked a strong economic base, they very quickly discovered that they had fallen into the major cultural divide of the times. Their ideology of enlightenment and their songs full of individuality failed to find receptive ears and, after their love and their calls had echoed off the hearts of the small-scale producers like Ah Q, they underwent changes and transformation. Thus, they were solitary, hesitant and lonely. The loneliness in Lu Xun's *Wild Grass* was produced by the cultural divide between those who have become aware first and the general masses. Very few people responded to his call and it was even sometimes misunderstood (For example, at that time some people asked who it was that *The True Story of Ah Q* was satirizing). The response to the great call to the spirit was a cold and blank look. This could only lead to the giving up of hope. The process of growth of the modern spirit and modern individuality was in the West a long and drawn-out process. It was a natural process of growth and development over several centuries, and this growth was assisted by the necessary corresponding external political, economic, cultural and ideological conditions. However,

our "May 4th" new literature movement developed extremely quickly and individualism and the independent spirit of the intellectuals arose suddenly. They did not have appropriate external conditions. When China's society did not have fully developed large-scale production, did not have a strong commodity economy base and did not have modern social strengths (including proletarian and bourgeois strengths, not handicraft workers, but real industrial workers and a free professional strata), these social conditions could not produce characters with a strong self and a strong independence. On the literary level, likewise, characters of such uncommon manner as those found in Rabelais' *Gargantua* or the humanist spirit of unquenchable seeking like that of Faust, could not be produced. As soon as these characters were produced, they would have been encircled by society, become "eccentrics" in the eyes of the common people and become what Ibsen called "public enemies of the nation." Because the external conditions were not ripe, it was very easy for the new literature writers to feel sick at heart and for their hopes to be dashed. Thus, it was inevitable that this brought a feeling of vacillation, that there be new seeking for a road and for a spiritual fulcrum, and even that they began to doubt those principles of enlightenment which they had advocated to the society not long before. This is the most intrinsic and most basic reason why, after "May 4th," intellectuals (especially writers) experienced widespread depression.

Apart from the practical reasons, there were other more deep-going traditional reasons why the intellectuals were subject to the reversal of historical roles. Although China's intellectuals, especially the "May 4th" generation of intellectuals, had come into contact with Western culture, they basically developed in the soil of Eastern culture (mainly Chinese traditional culture). It can be said that they were the regenerated and precipitated products of Eastern culture. When we use the ready-made concept to divide the period before and the period after "May 4th" into two ages, we recognize that in actual life it is impossible in a new age which has just begun to create a new cultural character with overall meaning. It is only possible to produce some sprouts of the new cultural character. And, there is always precipitated and contained in these sprouts the heavy and extremely inert past. This "power of the past" is always intent on dragging the new cultural character back to the old base. Thus, although the intellectuals of the "May 4th" period had a quite passionate attitude towards the past, in a certain sense, they were actually all divided personalities. In themselves, they manifested various cultural characteristics of the new age, but accumulated within them were the cultural factors of the old age. They grasped the two cultures and were at the same time grasped and torn by these two cultures. They identified with Western culture in the value concepts, but in their action models and ethical attitudes they were still bound by traditional culture. Their hearts were full of ideals and real contradictions, such as the contradiction between individualism and humanism and the contradiction between historicism and ethicalism. They both molded a new age and were at the same time molded by the old age.

They tried to use the new cultural spirit to bring standards to other people, but at the same time they were being given standards by other people through the old society. As their souls were occupied and being pummelled by two two culture unwilling to budge, they became clearly even more depressed, worried and constantly vacillating between the two extremes. Such divided persons and such divided cultural characters obviously lacked a strong subjective strength and individual strength and it was very difficult for them to take on a major, persisting historical role. Three types of intellectuals were depicted by Lu Xun during the "May 4th" period, the madman type, the Kong Yiji type and the Wei Lianshu type, and it was the divided intellectuals like Wei Lianshu who were very widespread at that time. Their divided character led them to losing their new selves and returning to their old selves. The tragedy is that they became resigned to this reversal and could not change it. They advocated the self but were easily led to doubt. Those who had just become enlighteners had very quickly come to doubt the the preconditions for enlightenment. They declared war on tradition and very quickly compromised with the country's enemies. The tragic cultural character of Wei Lianshu was naturally very easily subject to transformation.

That the intellectuals of modern significance had the above-mentioned tragically divided characters is not strange. Their links with traditional culture were tighter and more intrinsic than their links with Western culture. Traditional culture had already infused their blood and changed their actual action models, feelings and attitudes. Traditional culture which was again engaged in adjusting the traditional human relations, not only was unable to provide intellectuals with a strong character and strong spirit, but naturally was hostile towards individualism and an independent spirit. In the several thousand years of rule by traditional culture, the only person to actually doubt and to critically assess whether that which Confucius said constituted right and wrong was actually right and wrong was Li Zhi. However, he was very swiftly swallowed up. We can see that traditional culture could not breed strong individuality and could not breed a strong individual national group. Thus, the new intellectuals which "May 4th" produced were congenitally deficient. Added to this congenital deficiency was the problem of acquired imbalance. This determined that later they would generally be subject to transformation and abnormal self-transformation. It also determined that the enlightenment spirit of the "May 4th" age inevitably would experience a tragic fate of degeneration and loss.

[29 Apr p 3]

Returning: The Establishment of Value Criteria for Contemporary Culture and the Revival of Artistic Individuality

The spirit of literary enlightenment of the "May 4th Movement" and the subjective aspect of the intellectuals

in enlightenment were once lost, but have gradually been regained with the beginning of the new historical phase.

I pointed out in another article, entitled, "The Fate of Chinese Intellectuals and Chinese Literature," that a radical change in the fate of intellectuals has taken place only with the beginning of the new historical period. In the last decade, two great turning points have emerged regarding China's intellectuals. The first is that the value and position of intellectuals have moved from a phase of negation by external forces to a phase of recognition, namely changing from being an alien force in the eyes of the working class to becoming part of that same class. The significance of this recognition is great. It means the relegation of the proposition of "ideological remolding" to the trash can, and the end of a period in which intellectuals were treated as a target of remolding, thus beginning a new chapter in which intellectuals have become part of the workers. The recognition of the political equality between intellectuals and workers and of intellectuals being part of the working class has created conditions for intellectuals to regain their subjective aspect in enlightenment in the progress of China's modernization.

Intellectuals who have regained their subjective aspect do not attempt to play the role of messiah, nor do they assume, in their enlightenment, a compassionate tone of condescension, but review history, and the conversion of their historical role, all the more soberly and with reason. They have discovered that the key to such conversion was the loss of modern ideology, the criteria for value. Qian Xinchun's high esteem for the peasants in the late 1920's and, later, Mao Zedong's assessments of the peasants and intellectuals in the criteria of utilitarian politics were not at all groundless. In his 1957 speech at the National Conference on Propaganda of the Communist Party of China, Mao Zedong said: "Some (intellectuals) are conceited; having picked up some phrases from books, they think themselves terrific and are very cocky; but whenever a storm blows up, they take a stand very different from that of the workers and the great majority of the working peasants. They waver while the latter stand firm, they equivocate while the latter are forthright." That is largely true. The question is that here the degree of subjection to the statesman's own will is referred to in the criteria of political utilitarianism. Under such circumstances, the workers and peasants might adopt a firmer and more thorough stand as compared with intellectuals at a particular time. Hence, intellectuals are felt to waver. However, should the value criteria of "modern cultural ideology" be adopted, we would find that such wavering is exactly an expression of a precious character of modern culture. This character is typified by questioning everything, and by the spirit of questioning any historical action, accompanied by rational criticism. When the value criteria of political utilitarianism completely replaced those of modern cultural ideology, this spirit and character with modern significance became targets of compulsory remolding. The fact

that intellectuals almost completely lost their spirit of independent thinking was the precise consequence of failing to differentiate between the two categories of value criteria.

In fact, the intellectuals' theme of enlightenment in the age of the "May 4th Movement" was to spark off nationalistic consciousness on the one hand, and mold modern man and culture on the other; politically the former, and culturally the latter. The fundamental reason Lu Xun turned Ah Q into a target of criticism lay in his not being a modern man, and being void of any modern ideology. Ah Q failed to establish himself, nor could he establish others. He could not face his own weaknesses squarely, nor could he criticize with reason the tragic environment he was in or his own tragic character. Lu Xun did not negate Ah Q's revolutionary spirit, and said: "Should there have been no revolution in China, Ah Q would not have joined it (the revolutionary party): As there was a revolution, he did."¹¹ The fact that politically Lu Xun appreciated Ah Q's revolutionary spirit did not prevent him from criticizing Ah Q's absurdity culturally. The question is that the generation following Lu Xun did its utmost to conceal Ah Q's absurdity by the selfsame revolutionary spirit, while intellectuals were censured for lashing out at Ah Q's absurdity. Naturally, intellectuals gave up the initiative to reform such absurdity, while they further doubted the character of modern culture in themselves. Such phenomena were precisely the aftermath of the years of intensified class struggle.

With the establishment of the value criteria of modern culture, intellectuals have regained the spirit of enlightenment. Such regaining is primarily intellectuals regaining themselves, and the reawakening of the writer's sense of the subjective aspect. The proposition of the subjective aspect of literary works in the theory of literature precisely reflects this awakening and the intellectuals' regaining of themselves. This proves that the subjective aspect itself is the source of significance and value. The loss of the subjective aspect signifies the loss of the significance and value of literature. With the awakening of the sense of the subjective aspect, writers also discovered that their spirit of doubt and critical spirit with reason, which had been censured as "wavering," are in actuality very precious. Therefore, they began to rediscover themselves as well as the spirit of individuality, the sense of independence, and the concern for the ultimate value of human society—all that had ignited them back in the age of the "May 4th Movement." Therefore, they no longer rest satisfied with being recognized by external forces, while they actively affirm themselves, establish themselves, and become their own masters. They have come to see that their nature is the consequence of their own choice, not that of someone's definition. The reawakening of their sense of the subjective aspect signifies that in their souls, intellectuals have stood up and gradually regained their nature. The regaining of such a modern spirit has a strong impact on literature itself.

Corresponding to that, the spirit of enlightenment, which had its roots in the "May 4th Movement," has returned to life in the wake of intellectuals regaining themselves. Writers have displayed a spirit of enlightenment from the very beginning of literature in the new historical phase. In portraying Xie Huimin, the heroine in the novelette *The Class Instructor*, the author Liu Xinwu [0491 1800 2976] reveals her ignorance and blindness, while in past literary works, characters in this category would invariably be showered with praise. Criticizing ignorance is precisely the regaining of the spirit of enlightenment. Many literary works that have followed, including works portraying peasants, were entirely new in cultural spirit. The basic train of thought in these works is different from that in the novels published in the first 30 years after 1949, while it is linked to the spirit of enlightenment of the "May 4th Movement" at a new cultural level. For example, the novelettes portraying peasants by Gao Xiaosheng [7559 2556 5116], *Li Shunda Builds a House*, and *Chen Huansheng Goes to Town*, demonstrate a new pattern, with an entirely different train of thought and style from his own novels written during the first 30 years. They are even different from the novels of Zhao Shuli [6392 2885 3810] in the train of thought and style. These new novels portraying peasants reveal the dense shadow of traditional culture cast over peasants' minds, and the changes in their minds wrought by new culture. He refrains from an oversimplified approach by singing the praises of the peasants' revolutionary spirit, or by exposing their backwardness, but views from the perspective of modern culture the cultural and psychological burden on contemporary peasants of cults, while he criticizes such culture and psychology with reason. In the train of thought, Gao Xiaosheng shares Lu Xun's observation and portrayal of the peasant, which is enlightening to peasants. Gao Xiaosheng's novels and, later, the novels of Li Rui [2621 6904], as well as a number of novels by other authors portraying the peasant, stand as milestones. They signal that contemporary writers no longer follow in the footsteps of Zhao Shuli and other post-1948 writers, who were good at portraying the peasant, by viewing them on the same footing, or looking up at the peasant from a lower plane; but they discern, from the height of modern culture, the sharp contrast between the peasants' culture and mentality on the one hand and the cultural spirit of the new historical phase on the other—hence, the graveness of remolding the peasants in China. In this way, these writers have regained their role in enlightenment. The concepts of life and culture as revealed by such writers as Gao Xiaosheng convincingly tell us that peasants, who account for 90 percent of China's population, are quite unfamiliar with modernization, and that the gap between their cultural concepts and modern cultural concepts can be rather wide. In the progress of modernization, there is a need for intellectuals to carry out ideological enlightenment in the light of modern ideology and to spread modern knowledge. Without such enlightenment and popularization, the realization of modernization will be impossible. Without intellectuals

who devote themselves to such enlightenment and popularization, modernization will be reduced to a kind of utopia, whereas intellectuals will find their own value and prove the value of modern culture only by linking their own fate with that of modernization in spreading modern knowledge, in their undertaking of enlightenment in the light of modern ideology, and in building modernization.

With the regaining of the spirit of enlightenment, the creative individuality and artistic style of the writer have returned to life, while literary creation in China has entered upon a new era of multiple emulation based on individuality.

The loss of the intellectuals' spirit of independence resulted in the disasters of the monotony and abstract terms of literature and art. Consequently, intellectuals had to return to the train of thought characterized by "speaking for saints and sages," which had been criticized at the time of the "May 4th Movement," in writing stereotyped literary works "at the command of the authorities," namely, literature that serves politics, or annotations in images to illustrate party policies. Later, the pushing of the concept of "giving prominence to three aspects" among writers and artists put stereotyped literary works "at the command of the authorities," characterized by "speaking for saints and sages" in an extremely high position, and an abnormal one at that. Consequently, modern cultural ideology, including equality of personality and individualistic artistic style, were buried. With intellectuals' regaining of the sense of self, the writer finally left the blind alley of this train of thought. Even Ba Jin [1572 6855] has openly declared that he would never again write "at the command of the authorities." The very statement of this great writer, who has experienced life in several eras, has tolled the bell for the end of an era, and the beginning of a new one. Almost at the same time as Ba Jin got rid of the train of thought characterized by stereotyped literary works "at the command of the authorities," other veteran writers who had become well-known in the first half of the century also examined the path of their writing, while they reaffirmed creative individuality and revived their own artistic styles, including Wei Junyi [7279 0689 1355], whose prose works, literary criticism, and essays she wrote in the new historical period are the particular voice of a writer who has experienced a difficult progress of the heart. Her works in this period have reaffirmed, with deep feeling, the fine qualities of intellectuals. While veteran writers are recovering their individuality, middle-aged and young writers are continually breaking through their existing creative patterns, departing from the train of thought designed by others. Some of their experiences are successful, others are failures; but they are all pursuing and advocating something, namely, individuality and the subjective aspect. Although some of them have entirely negated the social function of literature (and ideological enlightenment is out of the question), what they are pursuing is still the independent

value of literature and the value of the writer's own self. During this period, their works have really presented us with some fresh features.

Reviewing the path of China's intellectuals in the literary arena over the past 70 years, we do not intend to criticize anyone's mistakes, but to view the past with understanding and sympathy, which helps us to see deeply that the goal of modernization China began to pursue 70 years ago has actually been an arduous progress. That progress has evidenced that modernization would be unimaginable without the initiatives of intellectuals. Only by putting intellectuals, workers, and peasants in the right historical positions and respecting each of their subjective aspects and historical initiatives will there be hope for modernization. We have also come to see that the success of a purely political revolution like the Revolution of 1911 is unlikely to be realised, and equally so with a purely cultural revolution such as the "May 4th Movement." China's modernization will enjoy bright prospects only when it is conducted simultaneously in the political, economic, and cultural areas. Society will develop in balance and intellectuals will have much to accomplish only when reforms in all fields are in synchronous progress. Only then will there be a mature modern Chinese literature.

Footnotes

1. *Great Series of China's New Literature—Introduction to the Second Collection of Prose.*
2. Foreword to *Collection of Articles on Literature and Art.*
3. *A Concise Edition of Materials on the History of Modern Thought in China*, ZHEJIANG PEOPLE'S PRESS 1982 p 680.
4. Originally carried in *ZHONGGUO QINGNIAN* No 15, 26 Jan 1924.
5. *Selected Materials on Literary Movements*, Vol 2, SHANGHAI EDUCATIONAL PRESS 1979.
6. *Collected Works of Qu Qiubai* (4-volume set), PEOPLE'S LITERATURE PRESS 1953, Vol 2 p 876.
7. See *The Double-Minded Collection—Unrevolutionary Eagerness for Revolution.*
8. See *Historical Materials on New Literature* 1987, No 4.
9. *Complete Works of Marx and Engels* Vol 46 p 104.
10. *Marx and Engels on Literature and Art*, PEOPLE'S LITERATURE PUBLISHING HOUSE 1960, Vol 1 pp 180-181.
11. "The Contributing Factors to *The True Story of Ah Q*"

Investigation Into Problems of Higher Education
40050469 Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese
No 14, 3 Apr 89 pp 11-12

[Article by Zheng Zhong 6774 5883: "They Are Deeply Concerned Over the State of Education—National CPPCC Members Investigate and Debate the Problems of Higher Education"]

[Excerpt] Not long ago, members of the National CPPCC Work Group for Education and Culture and the Beijing Municipality Higher Education Group jointly set up an investigative team which spent 6 months investigating 10 of the capital city's institutes of higher education. Subsequently, the National CPPCC Cultural Group convened a special standing committee to discuss the findings of that investigation. Materials pertaining to the investigation and discussions have been compiled into a report and sent to the relevant government departments.

Funding for education has declined in relative terms, because it has not kept up with price increases, and this is the common cause of the hardship of many colleges and universities in Mainland China.

The State Education Commission's allocation quota of funds per student per year to the institutes of higher education for educational purpose has remained unchanged since 1985. Because of wage reform and the evaluation of job title and other factors, the colleges' and universities' total wage bill as a percentage of the total educational fund has increased from 35 percent in 1985 to 50 percent in 1988, and similarly, logistic expenses have increased from 20 percent to 25 percent. This means direct funding for education itself has fallen from 40 percent to a little more than 20 percent, and the trend is continuing. Meanwhile, product prices have been soaring, and the costs of library materials, laboratory experiments, and practical training is 30-40 percent higher in 1988 than a year earlier. Although the colleges and universities have some income of their own through compensated services, like putting out fire with a cup of water, they are utterly inadequate. Many of them are forced to drastically reduce the quantity and varieties of books they purchase, reduce the number of laboratory experiments, and cut back on professional practical training and social study activities. Furthermore, today, many television education facilities in the classrooms are in disrepair and are outmoded and are unlikely to be replaced. All these have adversely affected the normal process of education and scientific research.

Colleges and universities have more expenditure than income, and they are forced to operate in the red. Estimates based on the budgets of Beijing University and the Beijing Teachers College and five other colleges and universities, the deficits total around 30.37 million yuan. To educate one university student, the school has to

spend 600 yuan of its own money each year. If it is so in the key universities, we can imagine how bad things are in other schools.

Meanwhile, teachers' salary, despite the increase in 1985, remains below that of any other occupation in society.

Housing for teachers in the colleges and universities is still in short supply. In particular, many young- and middle-aged teachers and their families have to cram "four generations to a room" or "live in separate quarters according to sex," and many live in "tubular apartments" or student dormitories. These living quarters not only are crowded and noisy but are not eligible for single family household registration, and so grain and meat purchases and the children's schooling have all become a problem.

Because the young and middle-aged teachers, especially the middle-aged, have important teaching and research responsibilities, heavy family burdens, and poor living conditions, their physical condition is steadily on the decline. Recently, Qinghua University conducted physical examinations of 855 of its assistant professors and higher ranking personnel and discovered that 520 of them have one kind of chronic disease or another. Of 57 people from the Beijing Aeronautics and Astronautics University died between 1986 and October 1988, 50 percent of the dead were middle-aged intellectuals. The evaluation of job titles which have gone "haywire" in recent years may have added to the real and psychological burdens of some teachers.

The CPPCC members' investigation discovered that some college and university teachers who were confused and anxious about education a year ago are now disappointed and angry and dispirited. People feel insecure, and it is a foregone conclusion that the talented have left. Many hope to pass the "TOEFL" [Test of English as a Foreign Language] and go abroad to "get out of poverty." At the Beijing University, of the 35 English Department teachers under the age of 45, 66 percent have gone abroad; 9 of the 11 Foreign Philosophy teachers under 40 years old are overseas, and 2 others are contemplating leaving. The age distribution of full-time teachers at the Central Conservatory of Music shows a clear gap: of the 210 full-time teachers there, only 21 are between the ages of 35 and 45; 73 positions are vacant. [passage omitted]

Social Ramifications of Planned Parenthood

40050413 Beijing XIN GUANCHANG [NEW OBSERVER]
in Chinese No 4, 25 Feb 89 pp 28-32

[Article by Fan Xiangguo 5400 7449 2654 and Huang Yuan 7806 0626: "China's Illegal Population"]

[Text] Shock Waves From the "Population Explosion"

On 11 July 1988, the liquid crystal numbers on the population clock that the United Nations Population Foundation presented to China showed the following:

The world's population increases by between 154 and 155 people every minute, between 24 and 25 of them Chinese.

The net increase in the world's population is between 9,258 and 9,259 people per hour, between 1,458 and 1,459 of them Chinese.

The net increase in the world's population fluctuates between 222,200 and 222,230 per day, between 34,900 and 35,000 for China.

The world's population currently stands at 5.08 billion, 3 billion of it Asians, and 1.08 billion of it Chinese. If the 1 billion Chinese were to stand along the equator and link hands, they would circle the globe 43 times!

The shock waves of the population explosion make our tiny planet tremble and make the 9.6 million square kilometers of China's territory tremble.

Today, planned parenthood and population control, which have been written into China's solemn constitution, have become China's basic national policy.

However, we must face the following grim challenges:

Forecasts call for a 1988 national population rate of increase of 2.1 percent, for a net population increase of 15.2 million.

The rate of population increase will rise consistently over a period of several years.

The 350 million Chinese born between 1962 and 1975 are now entering their childbearing period. We are surging toward the third peak period of child bearing, which will continue until the end of the present century.

Despite China's spectacular achievements in planned parenthood work, beneath the shock wave of the population explosion lies an even harsher specter. Because the number of planned births is exceeded to a rather serious extent in some places, most parents do not register excess children as residents in an effort to conceal them from the government and avoid fines. The volume of population movement has increased in recent years, with some peasants living in cities and towns where they work or do business for long periods of time. As a result, there has been a loss of control over planned births, the population having as many children as they want and not registering them for residence purposes. Some grassroots level governments refuse to issue household registrations for excess children so as to be able to "fulfill" their planned birth quotas. This has given rise to an unregistered population of illegals made up of people born outside of plan. The country's unregistered population is estimated to be nearly 20 million! One population expert revealed with heavy heart that the actual figure is far higher than this.

This is an intolerable and worrisome figure.

The Humiliation of "Borrowing Land To Grow Grain"

Ten years ago, the 21 year old Chen Suhua [7115 4790 5363] was introduced to Ju Gouzi [7263 3699 1311] from a neighboring village. In less than 3 months, they rushed into marriage. But when Suhua gave birth to girls from two pregnancies, and then submitted to sterilization, disaster struck. At night, Ju Gouzi beat her mercilessly and cursed her in a loud voice. "You can't even give your man a son, and you were so willing to have yourself sterilized. Do you want to put an end to my line on purpose?"

Ju Gouzi became frenzied with beating. Finally, he stripped off Suhua's clothes and whipped her private parts with the sole of a shoe. "What good is it to have you, foul smelling meat? You cannot bear a son. You might better be gouged out and fed to a dog!"

This simple-minded peasant woman was accustomed to the feudal ethical code of, "If you marry a chicken, live with the chicken; if you marry a dog, live with the dog; and if you marry a penniless man, just hold on to him." She was accustomed to a woman linking her fate to a man. All she could do was bear abuse in silence, cry, and suffer humiliation. The inhuman treatment caused her to become ill.

When Suhua's younger sister, Sufen, heard about it, she came running to look after her older sister. Sufen's husband had died of an illness 4 years earlier, leaving her with a less than 1-week-old son. She had never thought that Ju Gouzi would eventually include her in his plans.

One evening, Ju Gouzi held Suhua close to his chest and said, "Mother of my girls, I did wrong to beat you and curse you. After a lot of thinking, I know that even if I beat you to death, you will not be able to bear a son. I think that your younger sister should come live here for a year to bear a..."

"Shut up!" Suhua was so angry her whole body quaked. Her husband whipped a dagger from under the mat on the brick bed and jabbed it into the short-legged table on the brick bed, a murderous look on his face.

Chen Suhua was forced to give in.

Such a humiliating day that was. Sufen finally gave birth, and her child was also a girl.

Ju Gouzi's face changed suddenly and he cursed, "You two sisters are a useless pair! Get out. I don't recognize this vile spawn as my own!"

In less than a month, Sufen left crying and carrying the infant girl for whom she had no way of obtaining household registration.

Chen Suhua could bear it no longer. She ran away to the home of the party branch secretary where she hid. On the

following day, escorted by the chairman of peace preservation and militiamen, she went to court.

A Murder Case Resulting From the Borrowing of Seed

Wang Yi [3769 5030] was from a prominent family in his village, but both his paternal grandfather and his father had produced only a single male descendent. In 3 years of marriage, Wang Yi's wife had given birth to two girls. However, the village rigorously enforced planned parenthood, and Wang Yi was pressured into a tubular ligation for his wife. His old father bemoaned the family's misfortune, and his wife was adamant in her refusal.

The husband's mother produced an ingenious plan for dealing with the emergency that might be termed "borrowing seeds for planting, and borrowing a mold to make adobe bricks." When Wang Yi first heard the plan, his face reddened and his ears turned scarlet, but after repeated urgings, he acceded, and his confused wife likewise assented reluctantly.

After the other man arrived that evening, Wang Yi left the house. Both his legs leaden, all he could feel was the blood surging in spurts to his head.

After Wang Yi's wife delivered a son who could not be registered for residence purposes, she took to enjoying herself with men behind her husband's back. Unable to choke down the humiliation, Wang Yi went looking for her, a sharp ax tucked into his tunic.

After a few pitiful pleas from her, Wang Yi raised the ax and slashed his own throat...

Thus it was that a family was destroyed.

The Devout Seeking After a Son

The scene is the railroad station at Baoding in Hebei Province.

A peasant woman walks out of the station, fishes a piece of paper from her pocket and looks at it, then moves along the main street.

Her name is Liu Ling [0491 3781] from a rural village in a district of Dingzhou in Hebei Province. After marrying in 1982 and bearing two girls in a row, she felt sick at heart. As a result, she seemed fascinated with trying to find out the secret prescription for bearing sons. One day when she spotted an advertisement on a main street utility pole that claimed good news for those who wanted sons, she tore it down as though she had found a treasure.

Without bothering to discuss her plans with her family, she hurriedly boarded a train to travel northward, her desire for a son making her throw caution to the winds.

She found the small lane, entered a narrow courtyard, and found a 30-year-old man in a humble room inside.

"Do you really want to have a son?" the man said, looking directly at her.

"Hmm," she said, lowering her head in embarrassment.

"Do you honestly want to have a son?"

"Yes."

"All right. First give me 200 yuan!"

"I did not bring that much money. I am a country person who has come a great distance. You..." she implored.

"Let me look at you, if you honestly want..." The lecherous man seized hold of her hand. "Let me tell you the truth. I am the God of War descended to the world in human form. With my seed, plus a dose of medicine, I guarantee you will bear a son, and count yourself fortunate, ha ha..."

Liu Ling wanted to struggle to free herself, but too late.

Filled with shame and humiliation, she returned home where she cried without stopping all day long, saying not a word. In return for bearing tremendous pain and paying an extreme price, she gave birth to a third girl. Overwhelmed, she wailed bitterly.

The Dream of the Woman Boss

She is a strong girl, who came to the provincial capital to run a clothing wholesale and retail business after failing to qualify in the examination to enter senior middle school. After several setbacks and tribulations, she returned to the countryside with a lot of money to find a suitable bridegroom for herself.

On her wedding night, snuggling against her husband's chest, she said, "I will certainly give birth to a fat son. Do you believe me?"

But matters did not turn out as hoped. It was a girl child that came crying into the world.

The powerful desire for a son overwhelmed her good sense. Though she appeared to be a modern woman, she had not freed herself from feudal ignorance. In order to avoid the village's planned parenthood measures, she moved her entire family into the provincial capital. Here, in a corner of this city where no one exercised control and people from her rural village could not find her, she dreamed her beautiful dream of giving birth to a son.

During the scorching heat of July, she finally had her hope for a son. But the bitter fate of her business swept away the sweetness of having had a son. Her clothing stall had been forced out of business by others, and she lost her means of support in the provincial capital. Having no alternative, she returned to her village with four children. She still had money, but could money change the fate of three "illegal children"?

A 10,000 Yuan Household's Investment in Having Children

No matter how you looked at it, Wang Jinquan's [3769 6855 0356] household was the well-off one in the village, bar none. Wang lived in a small storied house that stood out from among the others; he owned a host of household appliances, and he had a beautiful wife, two vigorous sons, and an active daughter. Still, he was not satisfied. The more money he had, the more powerful Wang Jinquan's desire became to have a house full of sons and grandsons, many sons equating with much wealth.

Sitting in his parlor, we asked him, "How do you feel about the country's implementation of planned parenthood?"

He said, "Planned parenthood is very correct. China really has too large a population."

"But you have had three children one after another, and your wife is pregnant again?"

Wang Jinquan chuckled, and said with conviction, "I am different from other people. I have money, so I am not a burden on the country. My second and third children have no household registration. What difference does that make? We have plenty to eat, and are we dependent on anyone? When they grow up and establish their own homes, I'll give them 20,000 or 30,000 yuan, so what worry will they have about not having food to eat?"

"Didn't the village fine you?"

"Yes, it did. It fined me 2,000 yuan for each excess birth, but I didn't argue with them. I can have five children for 10,000 yuan, so I don't care! Anyhow, it's worth it. When you live in a village, having too small a family is no good. You get pushed around. After 10 or 20 years when several sons set up their own households, who will dare bully us? Another thing is that with the contracting of responsibility for fields, unless you have people to do the work, everything will grind to a halt. Nowadays when peasants are allowed to run enterprises and do business, it is even worse not to have enough people in a family. I also look at this as an investment!"

We were speechless. For some people, fines for excessive births not only do not achieve their purpose, but become a means whereby they are able to flaunt their wealth. In some well-off places, fines are no longer effective in planned parenthood work. Rural villages need a number of more forceful rules and regulations for planned parenthood.

Do Many Sons Equal Much Wealth?

He was the first one in the entire village to receive a single child certificate, and he received a citation from the county CPC committee and government. The family

of three had a very enjoyable life. Today, however, it has become an excess birth household.

During the intense heat of midsummer that year in the middle of Hebei Province, the parched fields cracked open, and the devil of drought purposely scared the crops. People burned with impatience to irrigate their fields to fight the drought, so much so that the village had to draw lots to decide the order in which people could water their fields. He had pretty good luck, drawing number 1.

Early in the morning, too excited to bother to eat anything, he went off to the pump. He had just about completed hooking up his diesel engine to it, when he saw two young men from the Li family pulling a diesel engine and also hurrying in his direction.

"Hey, fellow. Let us water first!"

"My family has less than 3 mu; I'll be finished watering in no time at all," he said laughingly. "As soon as I'm finished, I'll go back to the village to call you."

"No way. When we're finished watering, you can water!"

"I drew number 1."

"What good is number 1. We are going to water!"

"Are you trying to push me around?"

The two sneered, and knocked over his diesel engine. He would not let go of the engine, and suddenly a fist landed in his chest, and he received a kick in the behind. The two men rushed him and beat him till his nose was black and blue and his face swollen. He returned to the village to get a committee member to mediate. But to his surprise, as soon as the mediator saw that the Li family, which had many sons and much power in the village, was involved, he quickly smiled obsequiously, mumbled a few superficialities and left. Unable to water his fields and beaten up as well, he was filled with hate and resentment, and fell ill. As he lay on the brick bed, he had his wife bring out the single child certificate, which he tore to shreds. "Who says we are a solitary family, weak and puny? Until we have five sons and two daughters, I will not rest!"

He no longer accepted the single child payment from the village, and he spent money to have his wife's interuterine device removed. They had one child after another. He disregarded admonitions and warnings from the village cadres, and when planned parenthood was enforced strictly, he moved his whole family away until everything blew over. Over the course of several years, he paid a total of 3,500 yuan in fines for exceeding the number of permitted births, and after paying everything he had accumulated and still owing, he sold everything of value from his home right down to the bellows used for the cooking fire. His house contained nothing but four bare walls and did not seem like a home at all, yet he kept

on having children. As soon as his name was mentioned, the cadres in charge of planned parenthood in the township had a headache. When he was so poor he could not buy food to eat, where could he get the money to pay a fine for having too many children? His household became a perpetually needy one as a result of family planning, and the cadres had no choice but to accept it.

Knowing Violation

The small city lays under the silver blanket of a first snowfall.

As the young couple leaves the hospital, the man turns up the collar of his overcoat, his brow knit. The woman is silent. The snow beneath their feet crunches as though in pain.

After reaching home, the husband is a little worried. "What can we do now?"

"Have the baby," the wife says in a firm tone.

"How can we do that? We work for the government, and the policy is that both of us will be dismissed for having more than one child!"

"You're so stodgy. Policies are dead; people are alive. You should have been a deputy bureau chief." His wife glared at him. "Look at Deputy Director Wang on the third floor. His son is 9 years old, but he managed to get a certificate that his son has a congenital illness, so he got a permit to have a second child."

"Isn't his son really robust?"

"Dolt. Can't people find a child that is sickly for a hospital examination? In other words, you can also go through the back door at hospitals. I have thought it through. I'll file a request for leave without pay saying that my mother has been sick for many years and there is no one to look after her. I'll return to the village to live for a year until the child is born. I'll have my parents take care of it, and I'll return to work. Lots of young women in our factory do the same thing."

The husband became excited. "But won't the child become an unregistered illegal? Unless it is registered, no rations will be provided for it. Then what is to be done later on?"

The wife did not agree. "Later on? Who knows how the national policy may change later on? The authorities propose and the people dispose. Don't you worry too much?"

So, in this way, the number of unplanned births increased by one.

"The Excess Births Guerrilla Unit"

Above the leaden clouds grow thicker and thicker, and from the distance comes the rumbling sound of thunder. A downpour is on the way. On a highway leading to Honghedun Village in Anyang County, Henan Province, a middle-aged woman very close to giving birth is hurriedly dragging herself along the road, breathing hard, sweat streaming down her ashen cheeks. Five sallow-faced and haggard looking boys and one girl are pushing an old pushcart piled high with clothing, plastic sheeting, bowls, and pots...

This woman from Fuyang Prefecture in Anhui Province is leading the life of a vagrant in order to avoid planned parenthood, begging food by day and sleeping under bridges at night. Tonight, amidst the sound of wind and rain, an "illegal" is born in a dilapidated room in the east end of Honghedun Village. A villager offers 5,000 yuan to adopt the child, but the woman from Anhui refuses.

Within a few days, the family of eight leaves Honghedun, several children pulling their mother in a cart to set out again on a long journey...

Of the more than 100 families of business people from Guangxi and Guizhou provinces, as well as from neighboring counties gathered at the Shuangjiang Town Peasants' Market in the Tongdao Dong Autonomous County in Hunan Province, most have moved with their families to pitch stalls to do business in order to eke out an existence. More than 73 of these itinerant merchant families have three or more children, and as many as eight. They found a "haven" here under no one's jurisdiction where they can have more children than planned parenthood allows.

On a summer's day, the evening breeze caresses the face making the parched land of central Shanxi Province seem somewhat cool. A three-wheel bicycle cart moves slowly along an asphalt road in southern Taiyuan. The person pulling the cart is a more than 30-year-old burly man, his face filled with fatigue and his expression drawn. His name is Liang Mengquan [2733 1125 0356], and he is on his way back from collecting garbage in the city.

The three-wheeled cart turns off the highway, bumps along a rough dirt road for a short distance and turns into an abandoned pigsty. Eight years earlier, in order to escape from planned parenthood, he set out on the road with his wife and son, going from Xiyang to the provincial capital where he settled in a two-room dilapidated building.

A sturdy peasant woman, suckling an infant and with four children of different heights in tow, greets the master of the family. He nods wearily, puts out a hand to touch the children's small heads, and breathes a long sigh. He sets out on this suburban highway early in the morning and returns late at night, working hard, and not

knowing either how much sweat he sheds or how much distance he travels. He has never dared relax for an instant or let up. During the three 10-day periods of the hot season and during the coldest days of winter, day after day, and year in year out, just why does he work himself to the bone? When will these impoverished and miserable days end?

In many places throughout the country, an undercurrent of such a multiplying "illegal population" is surging that threatens the solidity of the planned parenthood dikes, and interferes with the exercise of population control. The grassroots planned parenthood cadres have no idea about and do not know where to begin to find out the number of excess births among the fluid population from this area who have spread elsewhere. Moreover, the local provincial, municipal, prefectural, and county cadres responsible for keeping planned parenthood statistics cannot keep track of statistics on households having excess children among the fluid population.

Our inquiries revealed that quite a few 13- and 14-year-old children are "illegals" who have never had a household registration. Some children were born illegally in townships and towns in other provinces, never returning to their family home; consequently they do not know where their ancestral home is. The parents of the illegal children are preoccupied with running away from planned parenthood, and eking out a living to raise their families. Their unsettled life has hurt the children's growth and development; the confused environment of constant movement has delayed the children's basic education, and this is not compatible with the rapid development of modern society. If this goes on for long, the settling down, living, going to school, employment, and marriage of these illegals will generate not readily soluble social problems. The serious consequences of this distorted childbirth situation will bring in its wake numerous elements of instability and social problems, which will add extra encumbrances to the country's overly heavy population burden.

Surplus "Illegals"

On the north side of the square in front of the Shijiazhuang railroad station, three ragamuffin children are somersaulting and juggling on a sheet of plastic as people quietly circle to watch.

Suddenly, the little girl leader kneels before the mass of people, and two more children "plop" to these knees. The young girl raises her face and says in a low voice, "Thank you, uncles and aunts. My family has suffered hardships. The village fined them for having too many children and took away all of the family's possessions. They also dismantled two rooms of our house. My father and mother became sick and died from anger and fear, leaving us five sisters and brothers. We had no way to make a living, so our two little brothers were given to others. The three of us come out to make a ..."

Some people shake their heads and sigh, some disperse without a word, and some fish two, three, or 10 or 20 fen from their pockets, and throw them to the children. We pressed several coins into the little girl's hand, feeling a surge of sadness.

Possibly the words of these several small vagrants cannot be believed, but the Li Chang [2621 1603] whom we met at the reception center is a real "illegal child." Just 12 years old, his family lives in a rural village in Quyang County in Hebei, and he has no household registration of his own. He was taken in in June 1988.

When we met Li Chang's father, this burly peasant said, "Why didn't I register the boy? I had too many children. The village would not let me register them. They said that I had seriously violated family planning and acted as a drag on the whole village. Well, he wanted to go to school, but the school would not take him. The village authorities have said that 'illegal children' cannot be accepted. If they are not allowed to go, then they do not go. Actually, the family is short of hands anyhow."

"Early this spring, this boy ran away. I looked all over for him, not knowing that he had ran away to the city. Why did he run away? This lad is sadder than anyone can tell. A few days ago, my neighbor, Young Dong, said that when the lad sees other children going to school, he is envious. He went to school, but the school would not take him. The lad became angry and said that he would not be an 'illegal' who was always blamed, so he ran away..."

This shows the concern of a father of excess children for his son, and this is a clear statement from an "illegal child," but can the child be condemned?

It is a hot evening in June in Quancheng, and the Jinan Railroad Station is crowded with people waiting for trains.

Suddenly there is a shout, "Catch the thief! Catch the thief!" A scrawny figure darts through the crowd in the direction of the main street beyond the square. He is caught by the personnel on duty and sent to the reception center. At first he claims to know nothing, but after the working personnel serve him some hot food and wash his face and his feet, he opens up his wounded heart and tells his life story, tears streaming down his face.

His name is Xie Linlin [2651 2651] from the suburbs of Heze City. He was born an "illegal." When the village authorities apportioned fields under the contract responsibility system, no portion was allotted for him, and the school provided no place for him in school. When the village operated enterprises putting in shares according to the number of people in each household, he had no share. It was as though no such person existed in the world, and now he was 13 years old. Later on, the family was fined when a check of population planning was made. His father was held up as a bad example of too

many births in a meeting of the whole village. Thereafter, his father became angry with him over the least little thing, and he became a foil for his father's anger. One day when he was tending the hogs, one ran off and was lost while he was playing for a little while. After returning home, he was viciously beaten. His father beat him and cursed him angrily: "You no-good whelp; you won't work, and all you want to do is play! Do you know, you don't even have as much as a [expletive deleted] plot to grow your grain ration. You're a surplus 'illegal'!"

He could stand it no longer. That evening he took 50 yuan and left home.

One day his father found him in a small restaurant in Taian where he was eating scraps left on plates. His face filled with contrition, his father said, "Linlin, come back home with me!"

"Why should I go back home with you? I'm a surplus 'illegal'!" When his father was distracted, he turned and slipped away into the street.

That night he was so hungry he simply could not bear it, so he stole some bread from a traveler's handbag and was caught.

He resented heaven, earth, and his parents. "I am a surplus, so why did you want to have me?"

At the young people's detention center, we met a young criminal with no residence.

He had left home to wander everywhere. Once in a roadside gambling scam, he put down 5 yuan that he had begged to try his luck. To his surprise, he won. He spent freely for several days. Then, without knowing how it happened, he became a small time gambler. Of course, he lost for the most part, so he started to steal and to cheat, finally developing to the point where he would cut the straps of handbags in which people were carrying large amounts of money...

Before us, tears flowed from his eyes. "...everyone despises me. Even my parents treat me in a different way. I have nothing to do but wander around. What enjoyment is there in that! I'm resigned to my situation, but what I don't understand is that since I have nothing, and no one acknowledges me, was my birth a mistake?"

Here he posed a question that all parents should answer.

He had just moved to the edge of crime, while some "illegal children" moved from abandonment to no schooling, leaving home, vagrancy, and begging to the abyss of crime in robbery, gambling, prostitution, larceny, and looting.

In the face of these individually injured souls and individually twisted souls, what will you who will be parents and who have become parents do?

A provincial public security department head said to me, "Existence of the 'illegal population' will bring greater difficulties and impediments to planned parenthood work. Producing more children than is allowed will spread unchecked in some quarters, and this will lead to failure of the basic national policy for planned population control. For 'illegals' to live in a depressed environment without being able to extend themselves for a long period of time will have a bad effect on their physical and mental health.

"Our pertinent policies provide that a certificate of interuterine device emplacement is needed to register a first child, and for registration of a second child, a certificate showing personal responsibility for the second child and a tubular ligation is required. Such a ruling is correct, but there are many loopholes. Without the certificates, what can be done? All one can do is not apply for household registration. This regulation seems ineffective against those who have no intention of registering excess births to begin with.

"When a child is born, it has the right to become a person. The parents who have too many children make a mistake, but the children are innocent. When household registration is not given, it is actually the children who are penalized. Those concerned should conscientiously deal with this problem, intensifying birth registration and population checks. The country's 'Household Registration Regulations' require that all the population be registered in ledgers, and local policies that do not permit the household registration of excess children should be abolished. Adoption of nonrecognition of 'illegals' cannot halt the birth of 'illegals'. Instead it occasions difficulties for the country's planned parenthood and population control policies, saddles society with problems that cannot be easily solved, and entails untold troubles.

"We must look squarely at the grim realities that produce the 'illegal population.' The prime way to solve the 'illegals problem' is not to produce new 'illegals.'"

Facing the Population Challenge

With the evolution of apes into man, mankind finally said goodbye to the animal world, and mankind's growth and multiplication should differ from animals' ability to multiply. This requires intelligence and self-control. Every citizen and family that makes up human society should clearly understand how the population problem relates to economic development and natural resources.

Estimates based on experience during recent years show the amount of money needed to rear a child from birth until 16 years of age to be 18,740 yuan in cities and towns, 36.5 percent of which is borne by society, and 63.5 percent of which the family bears. In rural villages, the sum is 6,695, society bearing 20 percent and the family bearing 79.9 percent. The present trend is for steady increase in these costs.

China made mistakes in its population policy during the 1950's, and since these mistakes have been recognized,

other historical mistakes should not be repeated in correcting them.

It must be realized that China has only 2 percent of the world's arable land area on which it supports more than one-fifth of the world's population. On the scale of an annual increase of more than 10 million in China's population, the amount of arable land decreased by 5 percent each year. Population increase damages the overall ecological environment through overloading, serious soil erosion, the disappearance of large forest tracts, the retreat of large grassland areas, the steady desertification of the land, an increasingly serious shortage of fresh water, and increasing pollution... It has been estimated that 20 percent of the country's annual increase in national income is wiped out by the population increase each year. Excessive population growth has to be paid for in a sacrifice of economic development and social development, and this price is a heavy one. Mankind's excessive growth is intensifying destruction of the environment in which man lives, and destruction of the environment in which man lives threatens mankind's very existence. Can such a vicious cycle be allowed to continue?

A leading grassroots comrade said that "planned parenthood work is difficult to do. I often hear township and village cadres complain that it is commonplace to be cursed in doing this work. One's chickens and ducks are poisoned, woodpiles are burned up, and the crops in responsibility fields are destroyed. The least thing done is to throw bricks to break one's skull. Actually, our planned parenthood work has scored achievements that all can see, but the situation we face is serious. There positively can be no slackening of efforts, and everyone must understand this, cooperate, and support it."

On "3 Billion Asian Population Day," Premier Li Peng said that China is the world's most populous country, and we understand in a profound way that overly fast population growth brings difficulties for economic and social development.

On "5 Billion World Population Day," United Nations Secretary General Perez de Cuellar declared that "people should not suffer from poverty, nor should they pass poverty along to posterity." "On behalf of 5 billion citizens, and for the sake of everyone's sharing in the earth's future joys, we must face the population challenge."

Characteristics of Larcenies 'Committed in Broad Daylight'

40050488a Beijing RENMIN GONGAN BAO in Chinese 11 Apr 89 p 3

[Article by Luo Mingquan 5012 2494 3123 and Xu Haiying 1776 3189 5391]

[Text] Today, crimes are on the increase, and among them, larceny cases have increased the most, and larceny committed in broad daylight make up a large percentage

of those crimes. Take Nanchong Prefecture which has a population of close to 10 million as an example: in 1988, there were 8,272 larceny cases in the whole prefecture; among them, 2,159 cases, or one-quarter of the cases, were "daytime larceny" cases. We have made some preliminary studies about the characteristics of these cases.

Daytime larceny cases generally have the following characteristics:

- (1) The crime is usually committed at around 9-10 am or 3-4 pm. Those are work and school hours and usually there is nobody home, giving the criminal elements the perfect opportunity.
- (2) The crime is usually committed in detached housing units in densely populated residential districts, and most crimes take place either on the ground floor or the top floor. Because there is less traffic in the detached housing units, and because fewer people go to and from the top floor on the stairs, committing a crime on the higher floors is not easily discovered. Committing the crime on the ground floor makes it easier to get away.
- (3) Most crimes are committed by juveniles and young adults, and most are with gangs, and they move around as they commit crimes. In the "daytime larceny" cases, in order to succeed, most criminals work in pairs or in groups so that one may be on the lookout while another pries the door open and a third gets inside—this is "division of labor, and each person bear his own responsibility."
- (4) The objects most coveted are cash, bank notes, award coupons, gold and silver jewelry, and other easily carried

valuables. Some may even steal color TVs and VCRs. Based on "daytime larceny" cases already cracked, the above items make up 95 percent of the stolen goods.

(5) There are many ways for the burglars to get into a room. Primarily, some may use a thin, flat tool to pick the lock or bang against the door to loosen the lock; some may break a door board to unlock the door or climb down the skylight or through the balcony.

(6) Many different ways are used to disguise a burglary. When the criminal elements go about their business, they usually knock on the door, and if someone happens to be home, they will pretend that they are "looking for somebody," or "got the wrong house." If nobody is home and nobody is around, they will quickly make their entrance and commit their crime.

Because most "daytime larceny" cases take place when people are at work or in school, and usually happen in crowded residential districts, they have seriously affected public security and the people's livelihood. We have learned from the cases already cracked that some criminals hold as their tenet, "work the residential units by day, and do the inside jobs by night." Furthermore, we have great difficulty in cracking this type of cases, and therefore we believe that "daytime larceny" cases will continue to increase, and the criminal elements will be even more rampant. To prevent more "daytime larceny" cases from happening and to reassure people so that they can work or study in peace, we have talked briefly about the characteristics of "daytime larceny," hoping that the right remedies can be found and stronger preventative measures will be adopted.

CENTRAL-SOUTH REGION

CPPCC Members Term Hainan Lease Plan Humiliating, Betrayal of Sovereignty

HK1805102389 Shanghai SHIJIE JINGJI DAOBAO in Chinese 24 Apr 89 p 6

[Report: "After Inspecting Hainan, Zhang Wei and Four Other CPPCC Members Oppose Hainan's Plan To Lease Land to Foreigners Listing Seven Reasons"]

[Text] At this year's session of the National Committee of the Chinese People's Political Consultative Conference [CPPCC], five members, including Qinghua University Vice President Zhang Wei, made a joint speech on Hainan's land lease, and this speech became the climax of the CPPCC session. The main point of the speech was: The Qing government in the last century ceded Hong Kong to foreigners, thus surrendering our country's sovereign rights under humiliating terms. This national humiliation has not been wiped out yet. Hainan Province now plans to lease 30 square km of land (an area equivalent to half of Hong Kong Island) to the Japanese at a minimum price—90 million yuan—for a period as long as 70 years. The CPPCC members' speech evoked strong and diverse repercussions in public opinion. It is learned that Zhang Wei and the other CPPCC members cited seven reasons to denounce Hainan's land lease-plan as a case of national betrayal and humiliation by ceding the country's territory to foreigners:

First, the Qing government's actions in surrendering the country's sovereignty rights and causing humiliation to the nation remain fresh in people's memories. Our sovereignty over Hong Kong and Macao has not been recovered yet. While the old national humiliation has not been wiped out, a new national humiliation is brought upon our country. How can the people tolerate this?

Second, we do not want to lose even an inch of land on the waste islands in Xisha and Nansha, and many soldiers of the People's Liberation Army have sacrificed their lives defending these territories. However, Hainan plans to cede a large stretch of land around Yangpu Harbor to foreigners.

Third, the land is to be leased to the Japanese, who ruled our country for a long time in the past, and the cost of the lease is so low.

Fourth, if the harbor facilities and power plants in the Yangpu area are all developed and managed by foreigners, China will certainly lose part of its sovereignty.

Fifth, after getting this large stretch of land, the foreign investors will shift many polluting industries to Hainan, and will even open brothels and casinos there, thus causing spiritual pollution.

Sixth, the term of the lease is as long as 70 years. In this period, the foreigners may make a great deal of money, but when the lease expires, they will just leave a stretch of ruins to us.

Seventh, China's economy will realize a major take-off in 20 to 30 years. Although the state at present has no ability to develop the harbor area, why can we not wait and why should we let foreigners seize this opportunity first?

This was the opinion of the five CPPCC members after they made an inspection tour in Hainan.

SOUTHWEST REGION

Work Report of Yunnan Provincial Higher People's Court

40050471 Kunming YUNNAN RIBAO in Chinese 17 Mar 89 p 2

["Yunnan Province: Work Report of the Higher People's Court, presented on 6 March 1989 at the 2d Plenary Session of Yunnan Province's Sixth People's Congress by Qiu Changjiao 6726 0482 2403, president of the Provincial Higher People's Court"]

[Excerpt] Fellow delegates: [passage omitted]

The following are major tasks accomplished by Yunnan's people's courts of all levels in 1988:

I. Continue to Crack Down Harshly and Quickly According to the Law on Criminal Activities that Jeopardize Public Security and Punish Severely the Criminal Elements who Ruin the Economy

In 1988, in accordance with Yunnan's social order situation and the provincial party committee and the Supreme People's Court's plan, Yunnan's people's courts at all levels continued to struggle to crack down harshly on serious crimes that disrupt social order. By the end of 1988, the courts have accepted 13,988 criminal cases that involved 22,118 persons, deliberated and decided 13,275 cases, and convicted 15,994 persons. The case-closing rate was 95.2 percent. Of all cases closed, 96.8 percent were deliberated and decided within the legal trial period. Of all criminals arrested and convicted, 5,148, or 32.2 percent, were sentenced to more than 5 years or life imprisonment or to death; 10,851, or 67.6 percent, were sentenced to under 5 years or jailed or put on probation or spared of criminal punishment; 197 were declared innocent. Of all criminal cases deliberated and decided, 5,105, or 36.6 percent, involved murder, assault, robbery, rape, drug trafficking, grand larceny, and violence for revenge, as well as roving hooligans, ring leaders of crime syndicates, traders of human beings, pimps who forced or lured women into prostitution and held them captive, bosses of gambling dens, and other dangerous criminal elements. Among those given the death penalty, stay of execution, or life sentence, 93.1

percent were involved in the above 12 kinds of serious crime. In the struggle to crack down on serious criminal offenses or serious economic crimes, the people's courts at all levels also adopted legal means to retrieve stolen properties and money and exacted fines or confiscated properties and returned 11,754,299 yuan to the state.

Last year, in the struggle to crack down on criminal offenses that jeopardize social order and punish the criminal elements who commit economic crimes, the provincial people's courts at all levels emphasized the following tasks:

(1) Adhering firmly and resolutely to the guiding principle of "swift and severe" to crack down relentlessly on dangerous criminal activities:

In the struggle to crack down on dangerous criminal activities, the provincial people's courts at all levels have put special emphasis on cracking down on criminals who have committed murder, serious assault, robbery, rape, or grand larceny, and on ring leaders of crime syndicates, traders of human beings, pimps who force or lure women into prostitution and hold them captive, bosses of gambling dens and other dangerous criminal elements.

While emphasizing the "crackdown on the key points," the people's courts made every effort to examine the cases within the legal time period and increased efficiency and followed the guiding principle of timeliness. Serious and major cases which threaten social order were brought to trial as soon as possible, and other criminal cases were also dealt with within the legal time limit.

(2) Insisting on "quality first," stressing "accuracy" as the nucleus, and emphasizing adherence to the law.

In examining cases, the people's courts insisted on "facts as the basis and law as the criterion" and handled each case strictly according to the law. We insisted on investigating the basic crime facts and sought accurate and complete evidence. In particular, in cases that involve the death penalty or stay of execution, the courts have insisted on sending judicial officers to the crime scene, interrogating the accused, questioning the principal witnesses and those who identified the accused, and verifying all evidence to make sure that there are no mistakes, and we have been more than careful.

In examining the cases, the courts have also tried to determine if there are extenuating circumstances according to the law which would justify light, reduced, harsh, or extra harsh punishments, such as whether the accused have rendered meritorious services previously, whether the accused are of legal age to stand trial for criminal offenses, whether they are mentally competent, and whether the female accused are pregnant, and so on. The courts have administered the law solemnly.

Furthermore, the people's courts have paid special attention to protecting the lawyers' function and power to

guarantee the rights and privileges of lawyers in all litigations and have given full play to the positive role of lawyers in all cases and listened to their defense arguments in earnest.

(3) In accordance with Yunnan's present social order situation, the courts have cooperated closely with the public security organs and the procuratorates to target specific crimes.

Since last year, besides targeting serious criminal offenses such as murder, assault, robbery, rape, larceny, and hooliganism, the people's courts have also set up special task forces targeting the following two crime categories:

One, crack down hard on a few trouble makers who use racial and religious issues as excuses to violate laws and regulations and create disturbances and engage in "fighting, rioting, looting" and other criminal activities.

Two, crack down on drug trafficking activities and punish severely the criminal elements who smuggle and transport drugs for sale: In view of the seriousness of crimes involving drugs, the people's courts in regions concerned are targeting drug related cases and have worked closely with the public security, procuratorate, and customs organs and have formed special task forces to crack down on those activities. Statistics show that in 1988, Yunnan's people's courts handled a total of 1,225 cases involving drug smuggling and trafficking; 1,150 of those cases were deliberated and decided, and 1,627 criminals were convicted according to the law. These efforts have dealt a serious blow to the arrogance of the drug trafficking elements.

(4) Punishing severely according to the law the criminal elements who sabotage the economy.

In 1988, the people's courts across the province examined a total of 3,399 economic crime cases and convicted 4,322 persons, among them, 153 were given the death penalty, spared execution, or given life sentence; 4,169 were given prison terms or other punishments. In addition, fines were imposed and 7,528,556 yuan was recovered and returned to the state. In examining the economic crime cases, the people's courts have insisted on: 1. upholding the principle of being "firm, cautious, and accurate." Economic crime cases proven beyond doubt have been dealt with harshly. Where policies and laws are not clearly defined, the courts have taken extra caution and tried to be accurate and correct in applying the law to make sure that their decisions would stand the test of time. 2. We have emphasized the large and major cases. Major economic crime cases litigated in court have been given special attention promptly to publicize the legal system, inspire the masses, and intimidate the criminal elements. 3. The courts have administered the law solemnly and met the tough head on. In the serious economic crime cases, all people and matters involved are investigated thoroughly, no matter which unit or

which level of organization is implicated. All facts are looked into, and all cases are dealt with thoroughly. 4. In view of the seriousness of corruption and bribery among the economic crimes, the people's courts have emphasized severe punishment for corruption and bribery as the focal point of the crackdown on economic crimes. 5. When dealing with economic cases where the law is hazy, the courts have adhered to three principles, namely, protect and support conducts which facilitate reform and opening up and promote the development of the productive forces; oppose and restrict conducts which obstruct reform and opening up and undermine the development of the productive forces; crack down on and punish conducts which endanger reform and opening up and sabotage production.

II. Enforce the Civil Law and General Rules and Improve the Administration of Civil Justice

Last year, throughout the province, civil cases received by the courts continued to increase in number. Up to the end of December, the courts have received a total of 88,747 first-instance civil cases. This represents an increase of 5,601 cases, or 16.9 percent, over the previous year. Last year, courts of all levels in Yunnan examined many cases in accordance with state laws and relevant policies to protect the legal rights and privileges of the citizens and legal persons. Statistics show that in 1988, the province's people's courts at all levels deliberated and decided 39,819 civil cases (including cases left over from the previous year.) This is 5,957 cases more than in 1987 and represents a 8.9 percent increase in the case-closing rate. In trying civil cases, the courts have stressed the following tasks:

(1) *Taking measures to improve efficiency and to clear the docket.* Last year, although civil cases continued to increase in number, proper measures were adopted and great progress was made in clearing the docket. With a concerted effort, most courts were able to wrap up more than 90 percent of the cases.

(2) *Studying diligently and implementing the "Civil Law and General Rules of the People's Republic of China" and raising the standards in administering the law and guaranteed quality in case handling.*

(3) *Changing the kind of thinking and methods which only protect the interests of the state and the collectives and ignore the citizen's individual legal rights and privileges and protecting conscientiously the citizens' civil rights.*

(4) *Paying special attention to handling civil cases which involve Taiwan citizens.*

III. Reinforce the Administration of Justice in Economic Cases and Serve the Reform, Opening Up, and Economic Constructions

With the thorough implementation of the general policy of reform and opening up, and in the wake of the rapid

development of the socialist commodity economy, there are more frequent economic contacts between different regions, departments, and economic organizations, and economic disputes of all kinds have also increased. Handling these cases promptly and correctly are important to protecting the legal rights and privileges of the state, the collectives, and the citizens as well as to the adjustment of economic relationships and to preserving the socialist economic order.

As economic judicial tasks increase, and because ability to try economic cases is somewhat lacking, Yunnan has stressed the following tasks when dealing with economic cases: (1) the province has tried to perfect the economic judicial organs and enhance and substantiate the ability to try economic cases. Up to the end of 1988, 145 courts (including higher, intermediate, and basic courts) in the province have set up economic tribunals staffed by 628 economic judicial cadres. (2) The courts have kept up with the situation and reshaped their concepts. In trying economic cases, courts of all levels in the province are conscious of their duty to serve the reform and support the reform wholeheartedly and have taken the initiative to "improve the economic environment and rectify economic order." We insist on in-depth investigations and pursue the facts, clarify the truth, identify the responsibilities, and handle each case with impartiality according to law. (3) The courts have defined the legal basis in economic cases. Based on the Supreme Court's interpretation, as warranted by the new situation, besides the laws, the administrative rules and regulations, local rules and regulations, autonomous regulations in autonomous regions of minority nationalities, and specific regulations, the people's courts may also rely on the stipulations in the plans handed down by the State Council's ministries and commissions and provincial governments and the State Council itself as well as on the administrative rules and regulations promulgated by the governments of larger cities, municipal governments, and the special economic zones when making their rulings, but only as long as they do not contravene the pertinent laws or rules and regulations of a higher level. (4) The courts have paid special attention to new types of court cases and have defined the scope of cases to be accepted by the courts. As arranged by the Supreme People's Court, while Yunnan's courts continued to try all kinds of cases involving economic contract disputes, we have also begun to try some new kinds of court cases such as enterprise management contracts, leased operations and joint operation contract disputes, debts, infringement of economic rights, and labor disputes. The courts have supported and protected the progress of Yunnan's reform. (5) We have enhanced our executive abilities and have implemented the difficult laws more effectively.

In 1988, the people's courts of Yunnan accepted a total of 5,640 economic dispute cases of all kinds involving 132,014,900 yuan; 4,675 cases, or 82.9 percent, were heard and decided. This means the courts accepted and heard 209 more economic dispute cases than the 5,431 cases in 1987 and wrapped up 392 more cases than the

4,283 cases in 1987 and topped the 1987 case-closing rate of 78.9 percent by 4 percent.

IV. Improve the Handling of Lawsuits and Appeals and Strengthen Judicial Supervision

In 1988, the people's courts at all levels in Yunnan received 176,866 letters of appeal and 127,658 visitors, accepted and heard 8,619 cases on appeal, closed 6,150 cases, and in the process, amended the sentences in 1,906 of those cases. In these tasks, we try to uncover and rectify mistakes made in some cases and protect the rights granted by the constitution and the law of the citizens to appeal court decisions and rulings. Last year, we focused especially on the following tasks: (1) in organization and in the scope of functions, we tried to expedite the process from the letter and inquiry stage to actual trial or appeal and do a better job in handling the lawsuits and appeals to give play to the trial courts and put lawsuits and appeals on the judicial track. (2) We adhered diligently to the principle of dividing up the responsibilities when handling appeals and made headway with sorting out the criss-cross relationships and established that the guiding ideology for handling appeals should be, "divide the responsibility among all levels; each level tries to fulfill its responsibility; the higher level takes the lead, and the others rally in support." Special emphasis was placed on urging every level to fulfill its responsibility. (3) We reinforced judicial supervision and made sure that all appeals of criminal cases were handled diligently. First, the courts adhered diligently to the policy of winding up the historic old cases. With the concerted effort of all people's courts provincewide, the province basically has fulfilled its duty to implement that policy. Second, we took extra care in handling some criminal appeal cases which involved Taiwanese nationals. Third, we handled carefully appeals involving "crackdowns." In handling those appeals, on the one hand, we upheld and enhanced the accomplishments of the "crackdowns." We planted our foothold on the principle of preservation of social order and protection of socialist law and order and handled those cases with caution. On the other hand, we also insisted on seeking truth from facts and that all mistakes must be rectified. We abided by the law and upheld the original judgement if it was correct but rectified the mistake and recognized the truth if the original judgement erred. (4) We have provided stronger guidance and closer supervision at the lower level to handle the appeals better.

V. Establish and Amplify Administrative Judicial Organs and Take Active Steps To Examine Administrative Cases Carefully

Last year, in compliance with the legal provisions and with the demands of the Supreme People's Court, Yunnan's courts at all levels overcame difficulties and began to try administrative cases. We have taken the first steps and have been fairly successful. Up to the end of 1988, the province has set up 86 administrative tribunals. That means 58.9 percent of the courts in the province are

equipped to try administrative cases. Courts not yet so equipped have designated special staff for those cases and have provided the organizational safeguard for trying administrative cases. Statistics show that the courts accepted and heard 429 first-instance and second-instance administrative cases and appeals. This represents 202 cases more than in 1987. Of the 322 first-instance cases, 308 were tried and closed, with a case-closing rate of 94.1 percent. These cases fall into 11 categories, including social order, land, forestry, food sanitation, industry and commerce, and taxation. Trying administrative cases is a new undertaking and is still in the preliminary stage, and the courts are generally attaching greater importance to this task and are accepting and hearing these cases strictly according to law, and it has generated good social benefits.

VI. Reinforce the Courts' Ideological, Organizational, and Professional Constructions

In 1988, all the people's courts in Yunnan made an extra effort to reinforce the political ideologies of the contingent of cadres and gave priority to the anti-corruption task and adopted effective measures: one, we studied the documents of the 13th Party Congress of the CPC, the 3d Plenary Session of the 13th Party Central Committee, and the 5th Plenary Session of the Fourth Provincial Party Committee and engaged in debates of the productivity standards and spread situation education about the glorious achievements of the 10-year old reform to let the cadres and police know clearly and understand correctly the party's theories and basic lines. We upheld the guiding ideology that the administration of justice is for the purpose of serving the new order of socialist commodity economy, serving the principle of "one core, two basic points," and serving to improve the economic environment and consolidate economic order. Two, we reinforced education among cadres and the police to observe discipline and obey the law, strengthened the cadres and the policemen's resistance to and immunity against unhealthy influences and evil tendencies, rectified unhealthy tendencies, and established an upright and scrupulous image of administering the law fairly and impartially. Three, we enforced law and discipline and investigated and dealt with cases of violation of law and order and maintained the purity of the contingent of cadres. Four, we administered the courts with strict discipline and reinforced the system and discipline, and at the same time, conscientiously accepted the supervision of the party committee and the people's congress and of the people. We relied on discipline and the system to prevent corruption and accepted the party and the people's tests during reform and opening up. Reality proves that the cadres in Yunnan's courts are a disciplined, impartial, combat-ready contingent, and the majority of the courts' cadres and police can discipline themselves, and they will not accept invitations, take bribes, or accept gifts, and will not intercede because of personal friendship. We have many progressive workers, fine party members, and exemplary figures. But, there are a few cadres and policemen who cannot stand up to

the tests of reform and opening up and have violated law and order and even committed crimes. As soon as these problems are uncovered, they are investigated thoroughly and handled seriously and promptly without partiality or delay.

In order to establish carefully a contingent of cadres in the courts that fits the needs of the times, Yunnan's people's courts at all levels have worked hard on the organic structure and on the professional education and training of the contingent of cadres and have taken the first steps to turn around the situation of "small in number and poor in quality," meaning that cadres lack education and there are few professionals. We have laid a sound foundation for further improving the judicial standards.

Amid the people's courts' reform and constructions, another task we have emphasized is improvement in the judicial tribunals and people's tribunals. Since 1873, Yunnan has made good progress with the formation of judicial tribunals. Up to the end of 1988, 129 judicial tribunals have been set up, completing 89 percent of the 145 tribunals planned. The formation of the people's tribunal has been slower. Because of increasing number of criminal, civil, economic, and administrative cases, judicial duties are mounting. The formation of the "two tribunals" has not kept up with the needs of the increasing workload; therefore, the people's courts still need to overcome their fear of hard work and keep up the practice of plain living and hard struggle and work harder on the formation of the "two tribunals."

Fellow delegates: in 1988, in accordance with the decision of the standing committee of the provincial people's

congress resulting from the provincewide investigation of the law enforcement situation, the higher people's courts of Yunnan conducted our own major investigation of the province's judicial system. Because of this investigation, we have discovered problems which are still plaguing our administration of the law. Primarily:

(1) Some criminal cases are still poorly handled. There are incidents of failure to draw the boundary between guilt or innocence, tell one crime from another, and distinguish serious crime and minor offense. Some 3.2 percent of the cases have taken longer than the legally set trial period. In addition, the majority of second-instance cases in the higher people's courts and intermediate people's courts are not tried in public.

(2) Failure to utilize existing civil and economic laws when trying civil and economic cases. Because most civil and economic laws and regulations have been promulgated only in recent years, it takes time and practice to know and apply these laws and regulations properly. In addition, because the judges have not studied and do not understand these new laws and regulations well, they still rely heavily on convention and experience, and as a result, in trying civil case and handling economic disputes, they fail to apply the proper civil and economic laws and regulations, and judicial quality is lacking.

(3) In rare isolated cases, the cadres and policemen have failed the tests of reform and opening up and have become corrupt elements; some even have become criminals. Although they are few in number, they can ruin the image of the people's courts. [passage omitted]